Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2006

TENNESSEE

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2006

PHIL BREDESEN, Governor

DEPARTMENT OF AUDIT
JOHN G. MORGAN, Comptroller of the Treasury
Division of State Audit
ARTHUR A. HAYES, JR., Director

DEPARTMENT OF FINANCE AND ADMINISTRATION
M.D. GOETZ, JR., Commissioner
Division of Accounts
JAN I. SYLVIS, Chief of Accounts

Front Cover: Rural Scene in Memphis, TN
Photographic Services
State of Tennessee

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STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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INTRODUCTORY SECTION

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STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0285

DAVE GOETZ
COMMISSIONER

December 21, 2006

To the Honorable Phil Bredesen, Governor of the State of Tennessee, Members of the Legislature, and Citizens of the State of Tennessee

Tennessee Code Annotated 4-3-1007 requires the Department of Finance and Administration to maintain a system of general accounts embracing all the financial transactions of state government. As a part of the carrying out of this responsibility, I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2006.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

State statutes require an annual audit of all financial statements of the State. The Office of the Comptroller of the Treasury, Division of State Audit, has issued an unqualified ("clean") opinion on the State of Tennessee's financial statements for the year ended June 30, 2006. The independent auditor's report is located at the front of the financial section of this report.

As part of the audit of these financial statements, the Division of State Audit conducted an organization-wide audit as described in the Single Audit Act of 1984, as amended, and Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The audit included tests of compliance with applicable federal laws and regulations, as well as, a study and evaluation of internal controls, including internal accounting and administrative controls used in administering federal financial assistance programs. The results of this single audit are published under separate cover by the Division of State Audit.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 41,219 square miles and a population estimated to be 6 million. The State has three branches of government, Executive, Legislative and Judicial. The Governor, who appoints commissioners to lead the various departments, heads the Executive branch. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

The State of Tennessee provides a full range of services including education, health and social services, transportation, law, correction, safety, resources, regulation, and business and economic development. Its financial reporting entity includes all the funds of the primary government as well as all its component units. Component units are legally separate entities for which the primary government is financially accountable.

State legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and the Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

Budgetary control is maintained at the department level. Budget revisions during the year, reflecting program changes or interdepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Local economy

The Tennessee economy solidified its foundation in 2004 and 2005 following a period of mixed economic growth in the aftermath of the 2001 recession. Most economic indicators for the last two years point to an economy that has continued to expand. The sustained growth in the last year is especially notable in the face of rising interest rates and a sharp spike in energy prices.

Characteristics of Tennessee that have been identified as important reasons why firms have chosen sites within the state include work force related factors such as worker productivity, right-to-work laws and low unionization, as well as access to markets and the pro-business attitude of the state. Other factors include relatively inexpensive energy, plentiful natural resources, and sun-belt location.

State labor markets showed marked improvement in 2004 with nonfarm jobs advancing at a 1.4 percent pace for the year. While job growth slowed to 1.0 percent in 2005, the rate of decay in manufacturing employment also slowed. Tennessee's rate of job growth exceeded that of the nation in 2004, but trailed the nation last year. The nation's rate of job loss in manufacturing continues to exceed the rate of job loss in Tennessee. Since 2000, the state has lost 76,900 manufacturing jobs while the national economy has witnessed the loss of 3 million jobs in the industrial sector. Because manufacturing represents a larger share of the economic base in rural Tennessee, it is rural portions of the state that have been hit the hardest by industrial contraction. Services remain the primary source of job creation for the state economy, with employment growth especially strong in the state's metropolitan areas. The state economy is expected to show continued expansion through the short-term outlook window extending to 2008. Job growth is expected to improve somewhat over 2005, but will trail the nation. The state unemployment rate for 2005 stood at 5.6, well above the 4.0 percent rate that prevailed in 2000. The U. S. unemployment rate for the year was one-half percentage point lower than the state rate.

Tennessee job growth slowed in the last half of the decade of the 1990s on the heels of exceptionally strong job growth through 1995. Job growth was particularly resilient in 1993 and 1994, coming in at 3.7 percent and 4.1 percent, well ahead of the national pace of job growth. Job contraction took place in 2001 and 2002 as a result of the national recession, but has subsequently rebounded with positive growth. Nonfarm job growth in Tennessee is projected to total 1.2 percent in 2006 and 2007 and 1.3 percent in 2008, led by growth in most of the service sectors. Year-over-year job growth in manufacturing is expected to return to the black in the second quarter of 2006 yielding weak but positive job growth of 0.2 percent in 2006 and further improvement in the following year. Improvement in durable goods employment is expected to offset continued job losses in the state's nondurable goods sector.

Tennessee's unemployment rate generally varies with the cyclical pattern of the national economy. The state tends to enjoy lower rates of unemployment over the ups and downs of the business cycle than the national economy. The state unemployment rate stood at 6.4 percent in 1992, a reflection of the weak economic conditions that prevailed at that time; the US unemployment rate was 7.5 percent. In 2000, the state unemployment rate was only 3.9 percent. But with the onset of the recession in 2001, rates rose into 2003 when the prevailing average reached 5.8 percent. The US rate of unemployment stood at 6.0 percent in the same year. Annual average rates fell in 2004 with Tennessee coming in at 5.4 percent against a US average of 5.5 percent. The pattern may be changing somewhat, however, slight improvement in job growth will help move the state's unemployment rate down to 5.3 percent in 2006 and 2007 while the U.S. unemployment rate is expected to rest below 5 percent in each of these years.

Per capita personal income is commonly used to compare economic well-being and quality of life across areas. Personal income growth in Tennessee totaled 5.7 percent in 2005, while income for the nation grew at the slower rate of 5.4 percent. Proprietors' income has performed especially well in Tennessee. Tennessee nominal per capita income stood at $31,127 in 2005 which was 90.3 percent of national per capita personal income ($34,484).

Tennessee is expected to see nominal personal income grow 5.5 percent both this year and next year. Proprietors' income is projected to continue to lead overall income growth. Per capita personal income in Tennessee is expected to grow more slowly than for the nation in the next two years, translating into a widening disparity in relative well-being.

Long-term financial planning

In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent of the estimated State tax revenues to be allocated to the general fund and education trust fund. The revenue fluctuation reserve allows services to be maintained when revenue growth is slower than estimated in the budget. Beginning with the budget for the fiscal year 1998-1999 and until the statutory funding level is achieved, an allocation to the reserve is to be budgeted in an amount at least equal to ten percent of the estimated growth in estimated state tax revenues to be allocated to the general fund and education trust fund. Amounts in the revenue fluctuation reserve may be utilized to meet State tax revenue shortfalls. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of $100 million or one-half (1/2) of the amount available in the reserve may be used to meet expenditure requirements in excess of budgeted appropriation levels.

The expansion of this fund is a priority. The reserve increased $58.4 million in 2004-2005 and $49.3 million in 2005-2006 budget years. The increase in this reserve in 2006-2007 will meet the minimum legal requirement.

In 2002, Tennessee initiated an Enterprise Resource Planning (ERP) automation assessment study to research the feasibility of implementing an ERP system to meet the State's financial management, procurement, human resources, payroll administration and other administrative business needs. Toward the end of 2006, the software and a prime contractor were procured and implementation of the system followed. The system, named *Edison*, is expected to significantly improve the state's business processes, and thereby its effectiveness and efficiency. The system will enable the use of best management practices for financial, human resource, purchasing and other administrative operations.

Relevant financial policies

In 1994, the State transformed its Medicaid Program into a managed care project called TennCare, which covered not only Medicaid eligible persons but also certain uninsured or uninsurable persons. The State was successful in implementing TennCare reform during fiscal year ending June 30, 2006. These reforms included disenrolling uninsured and uninsurable adults who do not qualify for traditional Medicaid categories, establishing benefit limits in the pharmacy and medical programs, and gaining alterations to federal consent decrees. These reform strategies have provided the State with greater control of TennCare spending and allowed for needed improvements in other areas, such as education, with no new taxes and no statewide budget reductions.

To mitigate the effects of TennCare reform, new programs and insurance plans were initiated. These programs and plans were created to improve Tennessean's overall health status and to meet their healthcare needs by offering health insurance plans to individuals and employers and programs for uninsured children.

Tennessee pursues an aggressive cash management and investment program. One aspect of this program that is believed unique to Tennessee is the state's direct access into the Federal Reserve wire system. Through the State Trust of Tennessee, wire services in the federal system are accessed by the State's investment office. This provides the State flexibility in investing and concentrating cash balances, pension fund assets, and in redeeming warrants and checks issued against the Treasury. During fiscal year 2006, uncommitted State funds were invested in short-term collateralized deposits as follows (averaged): certificates of deposit (33%), commercial paper (28%), U.S. Treasuries (32%), and money market accounts (7%). The composite weighted average yield on these investments was 4.11%, up from 2.12% last year.

Tennessee currently provides a subsidy to retiree healthcare premiums based on years of service. The funding of those subsidies is on a pay-as-you-go basis. New accounting standards will require state and local government employers to account for other postemployment benefits (OPEB—benefits other than pensions) by recognizing an obligation in the government-wide financial statements if the benefits provided to employees are not advance-funded. An actuarial study to determine an estimate of the state's obligation was completed last year. At this point, executive management of the State will not establish a legal trust to advance-fund the OPEB benefits.

Major initiatives

Tennessee continues to focus on making education the state's fundamental priority, and on taking the next steps in job creation and economic development, public safety, and making state government focused and more responsive to its citizens.

The voluntary pre-kindergarten program was expanded during 2005-2006 with funding from the education lottery funds and the General Fund. The pre-kindergarten program is designed to give preference to children who qualify as at-risk, however, the goal is to extend the program beyond at-risk and make it available to every four year-old child in the State. *Teach Tennessee* is being implemented to challenge highly motivated, mid-career professionals to teach in the hardest-to-staff schools and in high-need subject areas.

Several job initiative programs focus on job creation with a goal of modernizing the tool kit used to sustain and build new industry in Tennessee. This will include investment in Tennesseans through training and re-training workers in advanced technologies, along with an expansion of infrastructure to foster competitiveness for new industry statewide. The FastTrack program includes funding for both infrastructure and training assistance grants to new or expanding businesses. The Jobs Cabinet program coordinates efforts at the highest levels of state government to create better-paying, higher-skilled jobs for working Tennesseans. Also, an Office of Diversity Business Enterprise serves as a point of service and information clearinghouse for small businesses, including minority- and women-owned businesses.

Awards and acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the twenty-seventh consecutive year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Tennessee Consolidated Retirement System has also received a Certificate of Achievement for Excellence in Financial Reporting award for seventeen consecutive years for its Comprehensive Annual Financial Report. In addition, the GFOA presented its Distinguished Budget Presentation Award to the State for its annual budget for the fiscal years ended June 30, 1992 through June 30, 1995 and June 30, 1998 through June 30, 2007. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Division of Accounts in the Department of Finance and Administration; and, the cooperation of all state agencies and branches. My sincerest appreciation is extended to all of the contributing staff and organizations.

Respectfully submitted,

M. D. Goetz, Jr.
Commissioner

Jan Sylvis
Chief of Accounts

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

December 21, 2006

To the Members of the General Assembly
of the State of Tennessee
and
The Honorable Phil Bredesen, Governor
of the State of Tennessee

Ladies and Gentlemen:

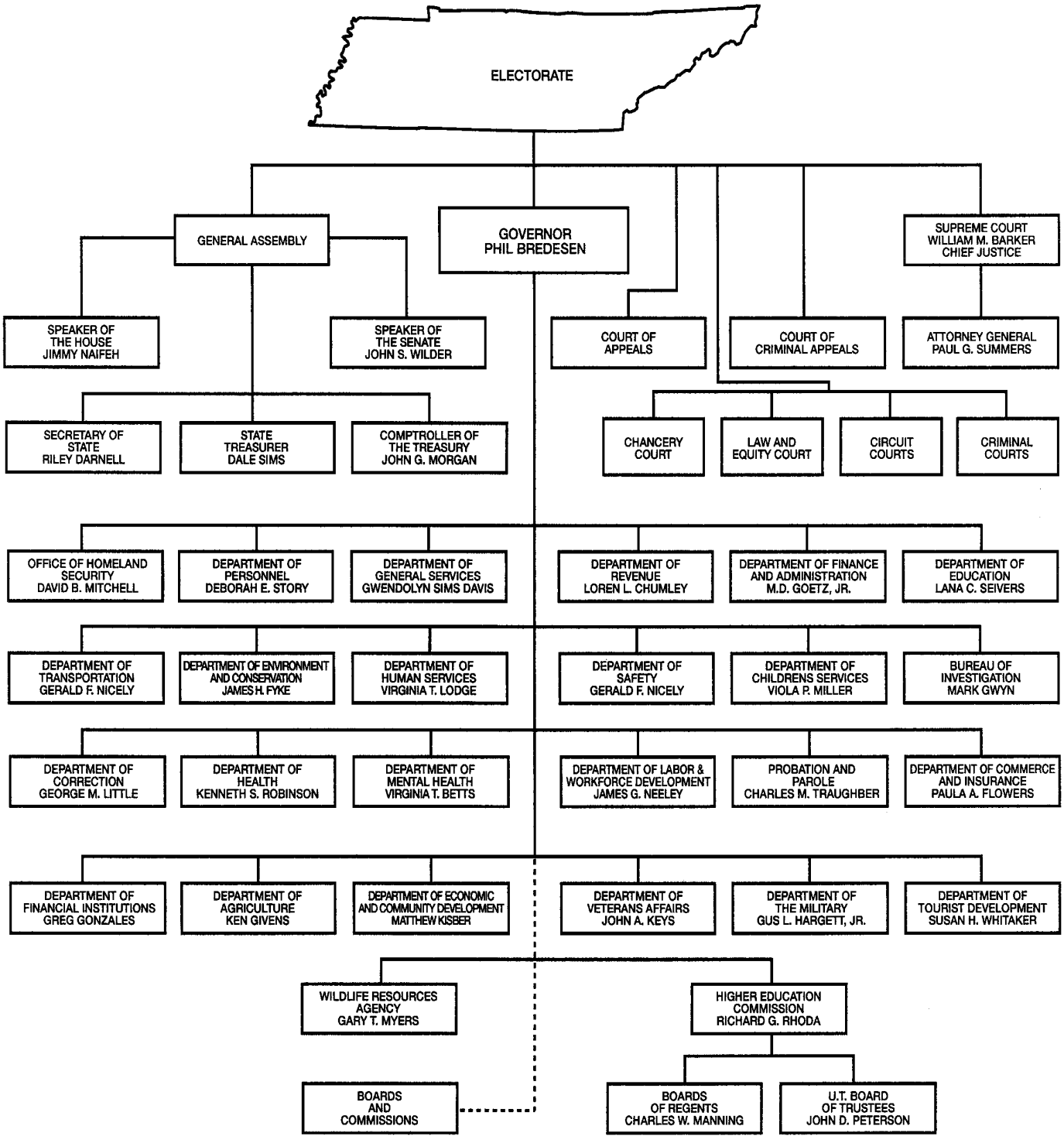
In accordance with Section 4-3-304, Tennessee Code Annotated, transmitted herewith is the auditor's report on the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2006.

Respectfully,

John G. Morgan
Comptroller of the Treasury

JGM/jmc

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2006



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

December 21, 2006

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving plans of operation of the state's Community Services Agencies and the Tennessee State Veterans' Homes Board; approving certain state contracts; participating in the negotiation and procurement of services for the state; managing the state's debt; making loans to the state's colleges and universities from debt proceeds; maintaining the accounting records for the Sewer Treatment Loan Fund, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority; developing policy guidelines for the overall management of the state's information systems; approving settlements against the state; producing a compilation of subrecipient expenditure amounts; and providing support staff to the State Funding Board, the bond finance committee of the Tennessee Housing Development Agency, various legislative committees, and commissions. The boards of which the Comptroller of the Treasury serves as a member per state statutes include Baccalaureate Education System Trust, Board of Claims, Board of Standards, Chairs of Excellence, Health Services and Development Agency, Local Education Insurance Committee, Local Government Insurance Committee, State Building Commission, State Funding Board, State Insurance Committee, State Trust of Tennessee, Tennessee Consolidated Retirement System, Tennessee Higher Education Commission, Tennessee Housing Development Agency, Tennessee Local Development Authority, Tennessee Student Assistance Corporation, Tennessee State School Bond Authority, and the Water and Wastewater Financing Board.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the schedule of revenues, expenditures and changes in fund balances – budget and actual, and infrastructure assets reported using the modified approach are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards,* we will issue our report dated December 21, 2006, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report.* The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/jmc

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the State's) financial performance provides an overview of the State's financial activities for the year ended June 30, 2006. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 3-6 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Assets - The assets of the State exceeded its liabilities at June 30, 2006, by $24.748 billion (reported as net assets). Of this amount, $2.360 billion may be used to meet the State's obligations not funded by restricted net assets. However, $20.204 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

  Changes in Net Assets - The State's net assets increased by $1.97 billion. Most of this increase results from the State's decision to utilize the modified approach for reporting infrastructure capital assets. Because of this decision, the State capitalized infrastructure expenditures of $841.7 million and did not record depreciation expense. Other capital assets are depreciated.

  Component units - Component units reported net assets of $4.14 billion, an increase of $292.1 million.

- **Fund Level:**

  At June 30, 2006, the State's governmental funds reported combined ending fund balances of $3.6 billion, an increase of $957.5 million (see discussion on page 20) in comparison to the prior year. Of the combined fund balance approximately $1.5 billion is available for spending at management's discretion (unreserved fund balance), however $324.7 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

  The State's total debt increased by $26.1 million during the fiscal year to total $1.245 billion. This change results from the State's decision to issue general obligation bonds during the fiscal year to obtain long – term financing for capital projects.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 27 and 28-29) provide information about the activities of the State as a whole (government-wide statements) and present a longer-term view of the State's finances. Fund financial statements start on page 32. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the State's operations in more detail than the government-wide statements by providing information about the State's most significant funds. The remaining statements provide financial information about activities for which the State acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the State as a whole begins on page 17. One of the most important questions asked about the State's finances is, "Is the State as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the State as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report financial information about the entire government except fiduciary activities. The statements distinguish between the primary government and its component units, and also distinguish between governmental activities and business-type activities of the primary government. The Statement of Net Assets displays all the State's financial and capital resources in the format of assets minus liabilities equal net assets. The Statement of Activities reports the State's operations by function to arrive at net revenue (expense). The statement reports what type revenue (either program revenue or tax revenue) funds the government operations. The State functions that are identified on this statement correspond to the functions used for budgetary purposes:

- Governmental activities–general government; education; health and social services; law, justice and public safety; recreation and resources development; regulation of business and professions; transportation; intergovernmental revenue sharing; and interest on long-term debt.

- Business-type activities–employment security, insurance programs, loan programs and other.

- Component units–significant component units include the Tennessee Housing Development Agency, the Tennessee Education Lottery Corporation, the Tennessee Board of Regents, and the University of Tennessee. Although these and other smaller entities are legally separate, these "component units" are important because the State is financially accountable for them.

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the State's major funds begins on page 20. The fund financial statements begin on page 32 and provide detailed information about the most significant funds–not the State as a whole. Some funds are required to be established by State law and by bond covenants. However, the State establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The State's two kinds of funds–governmental and proprietary–use different accounting approaches.

Governmental funds focus on the near-term inflows and outflows of funds and the balances left at year-end available for spending. The *modified accrual basis of accounting* is used for these funds, which means that we measure cash and all other financial assets that can readily be converted to cash. These statements provide a short-term view of the State's basic general government operations. One can determine whether there are more or fewer financial resources that can be spent in the near future. The governmental activities in the Statement of Net Assets are reconciled to the governmental funds in the fund financial statements in a reconciliation at the bottom of the fund financial statements.

Proprietary funds report the government services that charge service fees to its customers. Proprietary funds include enterprise funds (serving citizens) and internal service funds (serving state agencies). The enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail; whereas the internal service funds are included in the governmental activities.

Notes to the financial statements. Notes to the financial statements are also included and provide necessary information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units.

The State as Trustee

Reporting the State's Fiduciary Responsibility

Fiduciary funds are used to report resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the State cannot use these assets to finance its operations. Instead, the State is responsible for using the fiduciary assets for the fiduciary fund's intended purposes.

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by S24.748 billion as of June 30, 2006.

By far the largest portion of the State's net assets (82%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee
Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 5,888,797	$ 4,799,642	$ 1,680,529	$ 1,569,657	$ 7,569,326	$ 6,369,299
Capital assets	20,652,211	19,848,829			20,652,211	19,848,829
Total Assets	26,541,008	24,648,471	1,680,529	1,569,657	28,221,537	26,218,128
Current and other liabilities	1,715,419	1,672,832	60,688	53,152	1,776,107	1,725,984
Noncurrent liabilities	1,692,058	1,708,419	4,996	5,316	1,697,054	1,713,735
Total liabilities	3,407,477	3,381,251	65,684	58,468	3,473,161	3,439,719
Net assets:						
Invested in capital assets, net of related debt	20,204,007	19,380,154			20,204,007	19,380,154
Restricted net assets	725,209	580,840	1,459,045	1,389,261	2,184,254	1,970,101
Unrestricted net assets	2,204,315	1,306,226	155,800	121,928	2,360,115	1,428,154
Total net assets	$ 23,133,531	$ 21,267,220	$ 1,614,845	$ 1,511,189	$24,748,376	$ 22,778,409

An additional portion of the State's net assets (8.8 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets ($2.360 billion) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted.

At the end of the current fiscal year, the State was able to report positive balances in all three categories of net assets, for the government as a whole, and for its separate governmental and business-type activities.

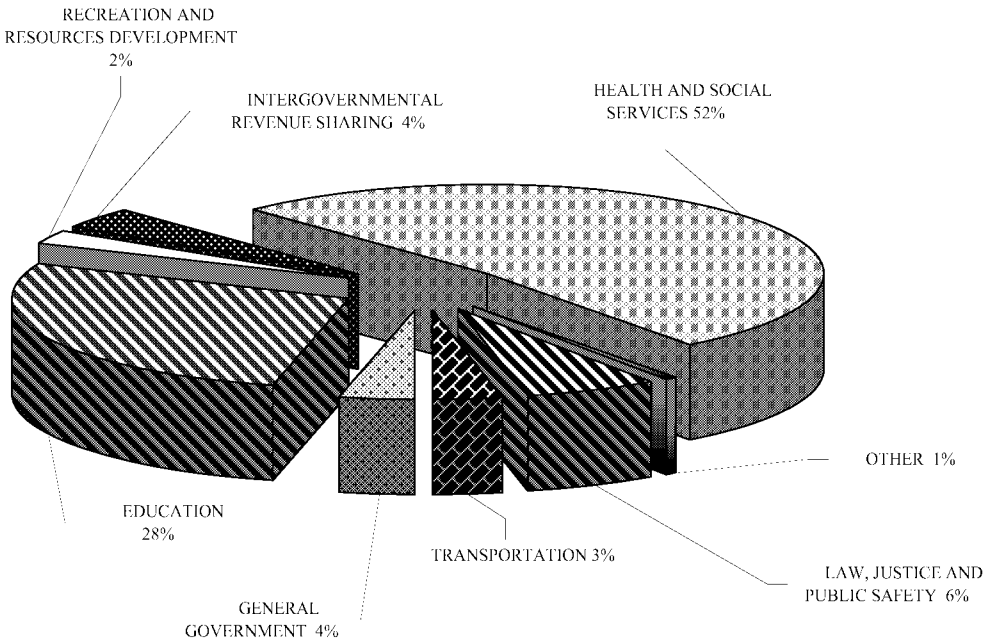
The State's net assets increased by $1.97 billion during the year ended June 30, 2006. As previously discussed, most of this increase was attributable to the State's decision to adopt the modified approach to infrastructure. Because of this decision, the State capitalized S841.7 million in infrastructure expenditures and did not record depreciation expense. Also, Tennessee does not fund highway construction by issuing debt, but it is funded primarily with fuel taxes and federal grants in the Highway Fund. Most of the remaining increase of S1.13 billion resulted from operations in the General Fund, Education Trust, Sewer Treatment Loan, and other nonmajor enterprise funds, which is discussed later in this MD&A.

State of Tennessee
Changes in Net Assets
(Expressed in Thousands)

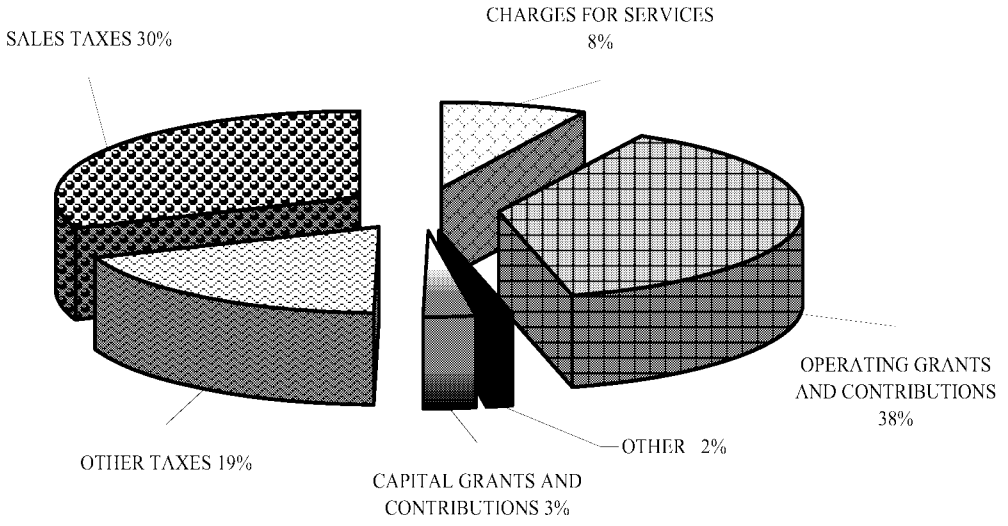
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	$ 1,663,264	$ 1,924,770	$ 876,888	$ 941,297	$ 2,540,152	$ 2,866,067
Operating grants and contributions	8,314,981	8,777,283	131,043	100,536	8,446,024	8,877,819
Capital grants and contributions	615,584	520,090			615,584	520,090
General revenues:						
Sales Taxes	6,540,224	6,099,159			6,540,224	6,099,159
Other taxes	4,042,427	3,757,905			4,042,427	3,757,905
Grants and contributions not restricted to specific programs		46,807				46,807
Other	266,753	239,587			266,753	239,587
Total revenues	21,443,233	21,365,601	1,007,931	1,041,833	22,451,164	22,407,434
Expenses:						
General government	705,897	595,872			705,897	595,872
Education	5,449,613	5,158,247			5,449,613	5,158,247
Health and social services	10,170,957	11,521,788			10,170,957	11,521,788
Law, justice and public safety	1,214,957	1,085,920			1,214,957	1,085,920
Recreation and resources development	466,689	416,083			466,689	416,083
Regulation of business and professions	86,945	113,902			86,945	113,902
Transportation	671,641	737,931			671,641	737,931
Intergovernmental revenue sharing	738,349	683,925			738,349	683,925
Interest on long-term debt	49,460	42,902			49,460	42,902
Employment security			452,043	476,646	452,043	476,646
Insurance programs			471,032	430,568	471,032	430,568
Loan programs			1,487	1,909	1,487	1,909
Other			2,496	2,498	2,496	2,498
Total expenses	19,554,508	20,356,570	927,058	911,621	20,481,566	21,268,191
Increase (decrease) in net assets before contributions and transfers	1,888,725	1,009,031	80,873	130,212	1,969,598	1,139,243
Transfers	(22,783)	(21,062)	22,783	21,062		
Contributions to permanent funds	369	468			369	468
Increase (decrease) in net assets	1,866,311	988,437	103,656	151,274	1,969,967	1,139,711
Net assets, July 1	21,267,220	20,278,783	1,511,189	1,359,915	22,778,409	21,638,698
Net assets, June 30	$ 23,133,531	$ 21,267,220	$ 1,614,845	$ 1,511,189	$ 24,748,376	$ 22,778,409

Governmental activities. Net assets of the State's governmental activities increased by $1.866 billion, which accounts for 94.7% of the total growth of net assets of the primary government. Most of this increase is due to the State capitalizing $841.7 million in infrastructure expenditures and not recording depreciation expense on these assets. In addition, the General Fund increased $698.2 million. This increase was primarily due to the fact that during this fiscal year, TennCare management spent the year implementing a broad reform strategy to include cost control strategies.

EXPENSES BY FUNCTION - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Business-type activities. Net assets of the State's business-type activities increased by $103.7 million, which accounts for 5.3 percent of the total growth in net assets of the primary government. The majority of the increase was caused by a $30.9 million increase in the Teacher Group Insurance Funds, which resulted from a January 1, 2006, premium increase as well as increased enrollment and a S60.5 million increase in the Sewer Treatment Loan Program, which resulted from additional loans issued and the federal monies received for these loans.

THE STATE'S FUNDS

Tax collections increased for the year and expenditures decreased. Details are in the following paragraphs. The Revenue Fluctuation Reserve has been increased to S324.7 million or 2.3% of General Fund expenditures.

General fund revenue collections decreased for the year by S325.3 million. Federal revenue collections decreased by $516.9 million primarily due to decreased expenditures in the TennCare program. Although, Sales tax collections increased by $146 million and Franchise and Excise tax collections were up S99.4 million due to the improved economy.

General fund expenditures decreased approximately $931.6 million. TennCare expenditures decreased by S1.5 billion while the majority of other General Fund program expenditures increased. For example, Human Services experienced increased expenditures of S106 million. The majority of this increase was due to the increase in food stamp coupons distributed to citizens. The food stamp program has experienced an increase in the number of eligible participants. The program is reimbursed 100% by the federal government. Mental Retardation expenditures increased by S82 million. Community services for the mentally retarded increased by S77 million. This increase reflects the rising cost of community residential placements and associated medical costs as well as increased demand for services.

Assets in the General fund increased by approximately 25%. The fund balance of the General fund also increased significantly with an increase of 52%.

The Education Trust Fund revenue increased S362.7 million for the year. The sales tax appropriated to the fund increased by S264.6 million. In addition, the net lottery proceeds transferred from the Tennessee Education Lottery Corporation (TELC) increased by S42.4 million. These proceeds fund scholarships for eligible Tennessee citizens to attend post-secondary educational institutions located in Tennessee and other educational programs. Of the $429.2 million Education Trust Fund balance, S365.0 million is restricted for the distribution of scholarships.

Education Trust Fund expenditures increased approximately S252.4 million or 5.0%. Most of the increase was to maintain full funding of the Basic Education Program (BEP) formula, equalize teacher salaries, and provide for teacher salary increases and group health insurance increases for local education agencies ($120.2 million). Also, expenditures increased for the lottery-funded programs by $66.8 million. This occurred mostly because of the increase in eligible students receiving scholarships (S42.1 million) and this was the first year that funding was provided for the pre-kindergarten program from excess net lottery proceeds (S24.7 million). In addition, appropriations to the college and university systems increased approximately S24.5 million to restore prior year budgetary cuts, and to provide for employee salary and group health insurance increases.

The total plan net assets of the pension trust funds were S28.8 billion, up over S1.6 billion from the prior year. As a result of the improved performance of the financial markets, the pension trust funds incurred a net investment gain of $1.9 billion.

General Fund Budgetary Highlights

Tax collections were S261.6 million over the estimate due to a strong economy. Federal revenue estimates from original to final budget increased by $271.6 million primarily due to increases in federal revenue in the Tennessee Emergency Management Agency as a result of Hurricane Katrina relief grants. In addition, significant variances between original and final budget were noted for TennCare. The TennCare program experienced an increase in estimated federal funding from original to final budget in the amount of S131.6 million as a result of Health Care Safety Net payments to hospital doctors and non-hospital doctors that were based on contingency appropriations. However, the TennCare program also experienced a variance between final budgeted and actual federal and departmental revenue collected as a result of program reforms. These reforms also contributed to a favorable variance between budgeted and actual expenditures of S1.6 million as a result of the program establishing limits in the pharmacy and medical programs. There was also a favorable variance between budgeted and actual expenditures in Finance and Administration primarily as a result of the administering of Hurricane Katrina relief funds. Fewer evacuees sought assistance in Tennessee than what was originally estimated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets at June 30, 2006, of S20.652 billion, net of $1.097 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government
Governmental Activities
(Expressed in Thousands)

	June 30, 2006	June 30, 2005
Land	$ 1,201,165	$ 1,083,091
Infrastructure	16,961,649	16,362,547
Construction in progress	1,262,922	1,149,728
Structures and improvements	1,753,841	1,743,378
Machinery and equipment	569,922	542,678
Subtotal	21,749,499	20,881,422
Accumulated depreciation	(1,097,288)	(1,032,593)
Total	$ 20,652,211	$ 19,848,829

More detail of the activity during the fiscal year is presented in Note 5C to the financial statements.

Capital assets, including those under construction, increased from fiscal year 2005 to 2006 by approximately 4 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure — highways and bridges. Infrastructure increased in total by $599 million – the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by S736.1 million and decreased (projects completed and capitalized) by S666.5 million. Infrastructure right-of-way acreage increased the land classification by $105.3 million. The structures and improvements increase of S10.5 million consisted largely of improvements to a State office building in Nashville ($2.0 million), security upgrades to a Department of Correction's facility (S2.2 million) and other miscellaneous projects. The net change in machinery and equipment of $27.2 million resulted primarily from replacing aged equipment.

In accordance with generally accepted accounting standards, the State is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The State is responsible for approximately 14,000 miles of roadway and 8,131 bridges.

The decision to use the modified approach was essentially made because the State has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 100), indicated that bridges were rated at 10 points above the State's established condition level and roadways were 15 points above the State's benchmark level. Bridges are assessed biennially and roadways annually.

The State's capital outlay budget for the 2005-2006 fiscal year reflects an improvement over previous years. Some new projects have been approved—the new Southeast Tennessee Correction Complex in Bledsoe County, the ORNL Neutron Sciences building in Anderson County, and the Nashville Armed Forces Headquarters—for general government. A number of new projects, such as renovations at the Tennessee Board of Regents and the University of Tennessee facilities and the Chattanooga State Community College Allied Health Facility improvements have commenced. In addition, the capital outlay budget consists of expenditures for maintenance of existing facilities (state and higher education institutions), projects funded by the Federal Government, and statutory requirements for prisons' physical plant maintenance and additions.

Debt Administration

In accordance with the Constitution, the State has the authority to issue general obligation debt that is backed by the full faith and credit of the State. The Legislature authorizes a certain amount of debt each year and the State Funding Board has oversight responsibility to issue the debt for capital projects. Capital spending is also authorized by the Legislature and the State Building Commission has oversight responsibility for all capital projects exceeding $100 thousand (for new construction) and maintenance to existing facilities. The State issues Commercial Paper as a short-term financing mechanism for capital purposes and the Commercial Paper is typically redeemed with long-term bonds. The unissued balance by function (expressed in thousands) follows:

Purpose	Unissued June 30, 2006
Highway	$ 883,500
Higher Education	66,548
Environment and Conservation	11,012
General Government	1,285,438
Local Development Authority	13,400
Total	$ 2,259,898

More detail of the activity during the fiscal year is presented in Note 5H to the financial statements.

The State's outstanding general obligation debt consists of the following (expressed in thousands):

	Governmental Activities		Business-Type Activities	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Bonds, net	$ 1,096,765	$ 1,044,830	$ 3,378	$ 5,232
Commercial Paper	144,625	168,575		
Total	$ 1,241,390	$ 1,213,405	$ 3,378	$ 5,232

The State issued $145 million in tax-exempt general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short-term basis. Approximately two-thirds of the outstanding debt has been issued either for capital projects of two of the State's major Component Units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The State's bonds are rated AA, Aa2, and AA by Fitch Investors Service, Moody's Investors Service, and Standard & Poor's Rating Group, respectively. Subsequent to fiscal year ended June 30, 2006, the State's bond ratings were upgraded to AA+, by Fitch Investors Service and Standard and Poor's, and Moody's Investor's Service changed the outlook on the state from *stable* to *positive*. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2006, the State's annual debt service limit of $628 million was well above the debt service required $148 million, with a legal debt service margin of $479.9 million.

FACTORS THAT WILL AFFECT THE FUTURE

The State has completed the process of reforming its TennCare program. In January 2005, Governor Bredesen announced TennCare changes under a plan that stops short of returning to traditional Medicaid by preserving coverage for children, and limiting benefits and reducing enrollment for adults. The plan for "basic TennCare" preserves full coverage for all 640,000 eligible children on the program and maintains a reasonable level of benefits for 530,000 adults who are eligible for Medicaid, the state and federal program for individuals and families with low incomes. As many as 191,000 adults, who are not eligible for Medicaid, ultimately will lose TennCare coverage—although 16 percent of those enrollees still will be covered under Medicare, the federal program for people who are older or who have disabilities. The State was successful in court challenges to TennCare reform and completed the disenrollment process during this fiscal year. As a result, TennCare program reform has addressed a significant fiscal problem.

In response to the TennCare program reform, Governor Bredesen proposed a plan to improve Tennesseans' overall health status and to meet their healthcare needs. The plan includes five components. *CoverKids* is an insurance program that creates a partnership between state and federal government to extend health coverage for every uninsured child in Tennessee. *AccessTN* is a plan to provide health insurance to seriously ill adults who can afford health coverage, but have previously been turned down by insurance companies. *CoverTN* creates a partnership between the State, small employers and qualified employees to offer guaranteed, affordable, low cost health insurance coverage for working Tennesseans who are uninsured. *CoverRX* continues the State's successful Safety Net program for affordable medication for low-income, working Tennesseans. The *Project Diabetes* program launches a major public health effort to help Tennesseans improve their exercise and eating habits, focusing on reducing diabetes and obesity. The programs are expected to be operational in the spring of 2007.

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Tobacco Master Settlement Agreement (Agreement) includes base payments to all states and territories through 2025, and continues in perpetuity. Lawsuits related to alleged noncompliance with certain provisions of the Agreement have been filed between the tobacco companies and a number of the states, including Tennessee. Several factors, the outcome of which is unknown at this time, may affect current and future tobacco settlement payments. Approximately $18 million was withheld from the April 2006 payments and $27 million is the anticipated withholding in April 2007. While the State may vigorously dispute any adjustments or withholdings, it could take years to have those disputes resolved.

The State is moving forward to implement an Enterprise Resource Planning system. The system, named *Edison,* is designed to update and improve many of the State's administrative business processes. *Edison* will integrate functions such as human resources, payroll, benefits, financials, and procurement and will eliminate many of the State's legacy administrative systems. In July 2006, the State contracted with MAXIMUS, the prime contractor, and PeopleSoft, software provider. The *Edison* team is in the process of working on the project work plan and change management phases of the project. The team has recently begun the system design, development, and testing phase. The human resources, payroll, and benefits component of the project is expected to be operational on January 1, 2008. The estimated operational date for the financial, procurement, and logistics component of the project is July 1, 2008.

The Legislature again approved funding to expand the voluntary pre-kindergarten program. Funding includes $25 million in excess net lottery proceeds and $20 million in General Fund dollars.

The 2005 legislative session restored one-half of the state-shared taxes paid to local governments that had been previously reduced. The Governor restored the remaining state-shared taxes in the 2006 legislative session.

New accounting standards have been issued that will require state and local government employers to account for Other Postemployment Benefits (OPEB), benefits other than pensions, provided to employees by recognizing an obligation in the government-wide financial statements if benefits promised to employees are not advance funded.

The State sponsors four healthcare plans that are affected by these accounting standards—Medicare Supplement, Employee Group, Teacher Group, and Local Government Group. The plans are operated on a *pay-as-you-go* basis, i.e., claims benefits for healthcare plan participants are paid as they occur. Although conceptually similar to the pension plan benefits, moneys have not been set aside to pay future claims that arise when active employees retire. The portion of (active and retired) employees' healthcare premiums for which the State is responsible is estimated and budgeted for each in the appropriate agency's budget.

Last year, the State obtained an initial actuarial valuation for all four plans for information and planning purposes. As a result of the new accounting standards, the State's June 30, 2007, financial statements will reflect the retiree members of each insurance plan, formerly commingled with active employees, in separate Agency Funds. However, the majority of change brought about by the new standards will be effective in fiscal year June 30, 2008. Therefore, in the summer of 2007, the State will issue a Request for Proposal for Actuarial Services to obtain the information regarding all four plans necessary to implement the standard's requirements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Tennessee's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 8th Avenue North, Suite 1400, Nashville, TN 37243.

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BASIC
FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Assets
June 30, 2006

(Expressed in Thousands)

	Primary Government			Total
Assets	Governmental Activities	Business-Type Activities	Total	Component Units
Cash and cash equivalents	$ 3,167,514	$ 462,169	$ 3,629,683	$ 1,602,854
Cash on deposit with fiscal agent		704,015	704,015	
Investments	224,217		224,217	1,330,022
Investments with fiscal agent				216
Receivables, net	2,281,431	99,211	2,380,642	439,099
Internal balances	6,810	(6,810)		
Due from primary government				8,098
Due from component units	86,396	1	86,397	
Inventories, at cost	30,407	41	30,448	13,588
Prepayments	12,800		12,800	11,015
Loans receivable, net	19,452	421,864	441,316	2,154,137
Lease receivable	5,648		5,648	
Deferred charges and other	3,602	38	3,640	27,977
Restricted assets:				
Cash and cash equivalents	50,520		50,520	18,290
Investments				190,121
Receivables, net				2,475
Capital assets:				
Land, at cost	1,201,165		1,201,165	162,549
Infrastructure	16,961,649		16,961,649	225,683
Structures and improvements, at cost	1,753,841		1,753,841	2,825,563
Machinery and equipment, at cost	569,922	16	569,938	751,226
Less-Accumulated depreciation	(1,097,288)	(16)	(1,097,304)	(1,768,302)
Construction in progress	1,262,922		1,262,922	341,290
Total assets	$ 26,541,008	$ 1,680,529	$ 28,221,537	$ 8,335,901
Liabilities				
Accounts payable and other current liabilities	$ 1,328,820	$ 51,732	$ 1,380,552	$ 317,229
Due to primary government				84,523
Due to component units	6,153		6,153	
Unearned revenue	346,792	8,956	355,748	133,045
Payable from restricted assets	11,303		11,303	
Other	22,351		22,351	30,297
Noncurrent liabilities:				
Due within one year	216,094	872	216,966	262,150
Due in more than one year	1,475,964	4,124	1,480,088	3,373,193
Total liabilities	3,407,477	65,684	3,473,161	4,200,437
Net assets				
Invested in capital assets, net of related debt	20,204,007		20,204,007	1,820,237
Restricted for:				
Wildlife Resources	24,397		24,397	
Capital projects	33,567		33,567	58,840
Lottery scholarships	365,042		365,042	
Single family bond programs				425,218
Sewer loans		609,935	609,935	
Unemployment compensation		776,448	776,448	
Drinking water loans		72,662	72,662	
Other	41,458		41,458	346,565
Permanent:				
Expendable	128,215		128,215	234,733
Nonexpendable	132,530		132,530	621,263
Unrestricted	2,204,315	155,800	2,360,115	628,608
Total net assets	$ 23,133,531	$ 1,614,845	$ 24,748,376	$ 4,135,464

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Activities
For the Year Ended June 30, 2006

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	$ 705,897	$ 375,640	$ 74,618	$ 4,381
Education	5,449,613	26,785	1,135,511	610
Health and social services	10,170,957	607,601	6,602,876	2,053
Law, justice and public safety	1,214,957	374,715	164,754	988
Recreation and resources development	466,689	138,970	150,993	2,465
Regulation of business and professions	86,945	124,435	3,428	
Transportation	671,641	15,118	182,801	605,087
Intergovernmental revenue sharing	738,349			
Interest on long-term debt	49,460			
Total governmental activities	19,554,508	1,663,264	8,314,981	615,584
Business-type activities:				
Employment security	452,043	381,600	68,267	
Insurance programs	471,032	479,515	5,919	
Loan programs	1,487	12,970	56,774	
Other	2,496	2,803	83	
Total business-type activities	927,058	876,888	131,043	
Total primary government	$ 20,481,566	$ 2,540,152	$ 8,446,024	$ 615,584
Component units:				
Higher education institutions	$ 3,271,297	$ 1,072,039	$ 1,084,465	$ 138,611
Loan programs	364,975	140,217	187,715	
Lottery program	939,889	931,020	43	
Other	71,925	25,773	46,405	14,697
Total component units	$ 4,648,086	$ 2,169,049	$ 1,318,628	$ 153,308
General revenues:				
Taxes:				
Sales and use				
Fuel				
Business				
Other				
Payments from primary government				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Miscellaneous				
Contributions to permanent funds				
Special items - Community Service Agency liquidation				
Transfers				
Total general revenues, contributions, and transfers				
Change in net assets				
Net assets, July 1				
Net assets, June 30				

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (251,258)		$ (251,258)	
(4,286,707)		(4,286,707)	
(2,958,427)		(2,958,427)	
(674,500)		(674,500)	
(174,261)		(174,261)	
40,918		40,918	
131,365		131,365	
(738,349)		(738,349)	
(49,460)		(49,460)	
(8,960,679)		(8,960,679)	
	$ (2,176)	(2,176)	
	14,402	14,402	
	68,257	68,257	
	390	390	
	80,873	80,873	
(8,960,679)	80,873	(8,879,806)	
			$ (976,182)
			(37,043)
			(8,826)
			14,950
			(1,007,101)
6,540,224		6,540,224	
851,362		851,362	
2,592,238		2,592,238	
598,827		598,827	
			1,172,009
			25,768
81,287		81,287	43,323
185,466		185,466	5,056
369		369	53,841
			(806)
(22,783)	22,783		
10,826,990	22,783	10,849,773	1,299,191
1,866,311	103,656	1,969,967	292,090
21,267,220	1,511,189	22,778,409	3,843,374
$ 23,133,531	$ 1,614,845	$ 24,748,376	$ 4,135,464

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund The General Fund is maintained to account for all governmental financial resources and transactions not accounted for in another fund.

Education Fund The Education fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education. Funding for these programs is accomplished primarily from the dedicated sales and services taxes and federal monies received from the U. S. Department of Education.

Nonmajor Governmental Funds Nonmajor governmental funds are presented by fund type in the supplementary section.

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2006

(Expressed in Thousands)

	General	Education	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 1,784,360	$ 56,057	$ 810,016	$ 2,650,433
Investments			224,217	224,217
Receivables, net	1,469,899	535,725	271,784	2,277,408
Due from other funds	8,169	121	1,747	10,037
Due from component units	5,391	72,316	8,296	86,003
Inventories, at cost	14,427		7,040	21,467
Prepayments	9		5	14
Deferred charges and other	2,488		3,442	5,930
Loans receivable, net	120		19,332	19,452
Leases receivable	2,577			2,577
Restricted assets:				
Cash and cash equivalents			50,520	50,520
Total assets	$ 3,287,440	$ 664,219	$ 1,396,399	$ 5,348,058
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	$ 919,813	$ 156,899	$ 147,743	$ 1,224,455
Due to other funds	18,398	820	1,930	21,148
Due to component units	4,230		1,923	6,153
Unearned revenue	314,328	77,268	73,896	465,492
Payable from restricted assets			11,303	11,303
Other	318		22,033	22,351
Total liabilities	1,257,087	234,987	258,828	1,750,902
Fund balances:				
Reserved for:				
Related assets	19,290		7,040	26,330
Encumbrances and contracts	8,642	796	466,707	476,145
Continuing appropriations	751,887	43,951		795,838
Specific purposes:				
Lottery scholarships		365,042		365,042
Regulatory boards	16,544			16,544
Title and registration system	23,239			23,239
Commerce and insurance division	10,510			10,510
Judicial information systems	15,294			15,294
Heritage conservation trust	10,135			10,135
Other specific purposes	104,688	19,202	3,051	126,941
Permanent funds:				
Expendable			128,215	128,215
Nonexpendable			132,530	132,530
Unreserved, undesignated reported in:				
General fund	156			156
Special revenue funds		241	344,902	345,143
Debt service fund			5,377	5,377
Capital projects fund			49,749	49,749
Unreserved, designated for:				
Revenue fluctuations	324,700			324,700
Other specific purposes	745,268			745,268
Total fund balances	2,030,353	429,232	1,137,571	3,597,156
Total liabilities and fund balances	$ 3,287,440	$ 664,219	$ 1,396,399	

Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,227,140
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	170,119
Internal service funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Assets.	582,727
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,443,611)
Net assets of governmental activities	$ 23,133,531

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	General	Education	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes:				
Sales	$ 2,664,727	$ 3,758,209	$ 92,706	$ 6,515,642
Fuel	13,453		837,319	850,772
Business	2,301,066	148,742	150,979	2,600,787
Other	576,830	135	29,069	606,034
Licenses, fines, fees, and permits	184,589	1,593	366,755	552,937
Interest on investments	77,406		24,669	102,075
Federal	6,922,657	835,701	810,374	8,568,732
Departmental services	2,096,614	35,282	107,072	2,238,968
Other	190,977	289,992	10,095	491,064
Total revenues	15,028,319	5,069,654	2,429,038	22,527,011
Expenditures				
Current:				
General government	499,349		31,288	530,637
Education		5,345,815	7,352	5,353,167
Health and social services	11,273,685			11,273,685
Law, justice and public safety	1,211,152		5,604	1,216,756
Recreation and resources development	377,087		167,657	544,744
Regulation of business and professions	66,754		26,134	92,888
Transportation			1,477,504	1,477,504
Intergovernmental revenue sharing	447,840		290,509	738,349
Debt service:				
Principal			86,532	86,532
Interest			49,319	49,319
Debt issuance costs			1,082	1,082
Capital outlay			253,229	253,229
Total expenditures	13,875,867	5,345,815	2,396,210	21,617,892
Excess (deficiency) of revenues over (under) expenditures	1,152,452	(276,161)	32,828	909,119
Other financing sources (uses)				
Bonds and commercial paper issued			228,409	228,409
Commercial paper redeemed			(109,908)	(109,908)
Bond premium			2,485	2,485
Insurance claim recoveries	414		1,256	1,670
Transfers in	131,977	401,944	199,892	733,813
Transfers out	(586,674)	(580)	(220,824)	(808,078)
Total other financing sources (uses)	(454,283)	401,364	101,310	48,391
Net change in fund balances	698,169	125,203	134,138	957,510
Fund balances, July 1	1,332,184	304,029	1,003,433	2,639,646
Fund balances, June 30	$ 2,030,353	$ 429,232	$ 1,137,571	$ 3,597,156

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2006

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	$	957,510
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		871,733
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		9,739
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(21,147)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(39,485)
Internal service funds are used by management to charge the cost of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.		87,961
Changes in net assets of governmental activities	$	1,866,311

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

Sewer Treatment Loan Created in 1987, this fund provides loans to local governments and utility districts for the construction of sewage treatment facilities. The initial sources of the monies are federal grants and state appropriations.

Employment Security Fund This fund is maintained to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants. Funds are also received from the federal government for local office building construction, supplemental unemployment programs and work incentive payments. As required by law, all funds not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned from these monies is retained in the fund. Administrative and operational expenses incurred by the Department of Labor and Workforce Development are expenditures of the General Fund.

Nonmajor Enterprise Funds Nonmajor Enterprise Funds are presented in the supplementary section.

Internal Service Funds Internal Service Funds are presented in the supplementary section.

State of Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2006

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
Assets	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities-Internal Service Funds
Current assets:					
Cash and cash equivalents	$ 252,454		$ 209,715	$ 462,169	$ 517,081
Cash on deposit with fiscal agent		$ 704,015		704,015	
Receivables:					
Accounts receivable			2,742	2,742	4,275
Interest	15	3,998	2	4,015	
Loans receivable	19,467		4,465	23,932	
Other		92,454		92,454	
Due from other funds		382		382	2,230
Due from component units			1	1	393
Inventory			41	41	8,940
Prepaid expenses					286
Total current assets	271,936	800,849	216,966	1,289,751	533,205
Noncurrent assets:					
Deferred charges			38	38	396
Due from other funds					1,182
Loans receivable	338,457		59,475	397,932	
Lease receivable					2,819
Capital assets:					
Land, at cost					54,927
Structures and improvements, at cost					460,691
Machinery and equipment, at cost			16	16	251,146
Less-accumulated depreciation			(16)	(16)	(347,747)
Construction in progress					6,053
Total capital assets, net of accumulated depreciation			-	-	425,070
Total noncurrent assets	338,457		59,513	397,970	429,467
Total assets	$ 610,393	$ 800,849	$ 276,479	$ 1,687,721	$ 962,672
Liabilities					
Current liabilities:					
Accounts payable and accruals	$ 37	$ 12,223	$ 39,503	$ 51,763	$ 76,402
Due to other funds		7,192	6	7,198	1,219
Lease obligations payable					339
Bonds payable			835	835	13,678
Unearned revenue		4,986	3,970	8,956	38,560
Other					28,216
Total current liabilities	37	24,401	44,314	68,752	158,414
Noncurrent liabilities:					
Lease obligations payable					2,928
Commercial paper payable					22,899
Bonds payable, net			2,543	2,543	138,151
Other noncurrent liabilities	421		1,160	1,581	57,553
Total noncurrent liabilities	421		3,703	4,124	221,531
Total liabilities	458	24,401	48,017	72,876	379,945
Net assets					
Invested in capital assets, net of related debt					247,075
Unrestricted	609,935	776,448	228,462	1,614,845	335,652
Total net assets	$ 609,935	$ 776,448	$ 228,462	$ 1,614,845	$ 582,727

The notes to the financial statements are an integral part of this statement.

State of Tennsssee
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Operating revenues					
Charges for services	$ 11,633		$ 4,140	$ 15,773	$ 422,681
Investment income	9,446		1,763	11,209	
Premiums		$ 381,600	479,515	861,115	644,384
Other					1,678
Total operating revenues	21,079	381,600	485,418	888,097	1,068,743
Operating expenses					
Personal services			842	842	55,591
Contractual services	740		31,189	31,929	221,216
Materials and supplies			750	750	81,722
Rentals and insurance			170	170	48,685
Interest			211	211	
Depreciation and amortization			11	11	34,511
Benefits		447,379	438,735	886,114	593,804
Other		4,664	2,367	7,031	5,019
Total operating expenses	740	452,043	474,275	927,058	1,040,548
Operating income (loss)	20,339	(70,443)	11,143	(38,961)	28,195
Nonoperating revenues (expenses					
Taxes					3
Operating grants	36,994	37,573	8,571	83,138	
Insurance proceeds					1,812
Interest income		30,694	6,002	36,696	14,279
Interest expense					(7,838)
Total nonoperating revenues (expenses)	36,994	68,267	14,573	119,834	8,256
Income (loss) before contributions and transfers	57,333	(2,176)	25,716	80,873	36,451
Capital contributions					28
Transfers in	3,212		19,571	22,783	51,482
Change in net assets	60,545	(2,176)	45,287	103,656	87,961
Net assets, July 1	549,390	778,624	183,175	1,511,189	494,766
Net assets, June 30	$ 609,935	$ 776,448	$ 228,462	$ 1,614,845	$ 582,727

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Fund				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Cash flows from operating activities					
Receipts from customers and users		$ 400,554	$ 484,094	$ 884,648	$ 277,907
Receipts from interfund services provided		1,920	277	2,197	807,381
Payments to suppliers	$ (9)		(468,091)	(468,100)	(906,008)
Payments to employees			(866)	(866)	(55,763)
Payments for unemployment benefits		(445,764)		(445,764)	
Payments for interfund services used	(731)	(4,664)	(3,024)	(8,419)	(63,825)
Net cash from (used for) operating activities	(740)	(47,954)	12,390	(36,304)	59,692
Cash flows from noncapital financing activities					
Operating grants received	36,994	37,217	8,596	82,807	
Negative cash balance implicitly financed					363
Negative cash balance implicitly repaid		(764)		(764)	(192)
Transfers in	3,212		19,571	22,783	51,482
Payments to component units			(25)	(25)	
Principal payments			(1,845)	(1,845)	
Interest paid			(251)	(251)	
Tax revenues received					3
Subsidy to borrowers			(132)	(132)	
Net cash from (used for) noncapital financing activities	40,206	36,453	25,914	102,573	51,656
Cash flows from capital and related financing activities					
Purchase of capital assets					(35,133)
Bond and commercial paper proceeds					51,590
Proceeds from sale of capital assets					3,689
Bond issuance cost					(89)
Principal payments					(56,431)
Interest paid					(7,253)
Insurance proceeds					1,812
Net cash from (used for) capital and related financing activities					(41,815)
Cash flows from investing activities					
Loans issued	(43,969)		(12,334)	(56,303)	
Collection of loan principal	23,266		5,390	28,656	
Interest received	21,178	30,694	9,101	60,973	14,278
Net cash from (used for) investing activities	475	30,694	2,157	33,326	14,278
Net increase (decrease) in cash and cash equivalents	39,941	19,193	40,461	99,595	83,811
Cash and cash equivalents, July 1	212,108	684,822	168,500	1,065,430	433,270
Prior year reclassification	405		754	1,159	
Cash and cash equivalents, June 30	$ 252,454	$ 704,015	$ 209,715	$ 1,166,184	$ 517,081

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Business Type Activities - Enterprise Fund				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities-Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	$ 20,339	$ (70,443)	$ 11,143	$ (38,961)	$ 28,195
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization			11	11	34,511
Loss on disposal of capital assets					(1,046)
Bond issuance cost					104
Investment income			(2,111)	(2,111)	
Charges for services	(11,633)		(989)	(12,622)	
Interest income	(9,446)			(9,446)	
Interest expense			211	211	
Subsidy to borrowers			43	43	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		20,230	(1,389)	18,841	(1,165)
(Increase) decrease in due from other funds		(102)		(102)	(508)
(Increase) decrease in due from component units		7	10	17	52
(Increase) decrease in inventories			(41)	(41)	(1,145)
(Increase) decrease in prepaid expenses					(110)
Increase (decrease) in accounts payable		1,240	4,172	5,412	(1,767)
Increase (decrease) in due to other funds		(2)		(2)	12
Increase (decrease) in unearned revenue		1,116	1,330	2,446	2,559
Total adjustments	(21,079)	22,489	1,247	2,657	31,497
Net cash provided by (used for) operating activities	$ (740)	$ (47,954)	$ 12,390	$ (36,304)	$ 59,692
Noncash investing, capital and financing activities					
Contributed capital assets					$ 28
Capital asset acquired by capital lease					2,734
Total noncash investing, capital and financing activities					$ 2,762

The notes to the financial statements are an integral part of this statement.

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

Pension (and other Employee Benefit) Trust Funds These funds are presented individually in the supplementary section.

Investment Trust Fund This fund was created in July 1980 to account for local government deposits with the state treasurer and the related interest earnings. Through this program, the participating local governments achieve higher investment income by pooling their funds than they could realize individually.

Private Purpose Trust Funds These funds are presented individually in the supplementary section.

Agency Funds These funds are presented individually in the supplementary section.

State of Tennessee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	$ 827,169	$ 873,719	$ 29,910	$ 349,855
Receivables:				
Taxes			42	317,149
Interest and dividends	171,165	10,091	24	
Due from sale of investments	33,288			
Foreign currency receivable	19,733			
Due from other governments	36,090			
Real estate income	1,376			
Other	23,353			
Total receivables	285,005	10,091	66	317,149
Due from other funds	6,468		9	9,257
Due from component units	5,990			60
Investments, at fair value:				
Short-term securities	503,847	917,378		
Government bonds	10,705,048			
Corporate bonds	3,130,005			
Corporate stocks	12,483,872			
Mutual funds			54,388	
Real estate	936,980			
Total investments	27,759,752	917,378	54,388	
Total assets	$ 28,884,384	$ 1,801,188	$ 84,373	$ 676,321
Liabilities				
Accounts payable and accruals	$ 43,359		$ 60	$ 593,509
Foreign currency payable	19,732			
Amounts held in custody for others				82,812
Total liabilities	63,091		60	676,321
Net assets				
Held in trust for:				
Pension benefits	28,820,635			
Employees' flexible benefits	658			
Pool participants		$ 1,801,188		
Individuals, organizations and other governments			84,313	
Total net assets	$ 28,821,293	$ 1,801,188	$ 84,313	$ -

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	$ 233,424		
Employers	474,879		
Federal			$ 8,525
Political subdivisions	191,000		
Private			7,031
Other			2,910
Total contributions	899,303		18,466
Investment income:			
Net increase in fair value of investments	893,530		(1,601)
Interest	700,483	$ 64,709	4,215
Dividends	263,555		
Real estate income	38,687		
Total investment income	1,896,255	64,709	2,614
Less: Investment expenses	18,957		
Administrative fee		769	
Net investment income	1,877,298	63,940	2,614
Capital share transactions:			
Shares sold		4,210,660	
Less: Shares redeemed		3,756,358	
Net capital share transactions		454,302	
Total additions	2,776,601	518,242	21,080
Deductions			
Annuity benefits:			
Retirement benefits	922,984		
Cost of living	195,539		
Death benefits	5,668		
Other benefits	7,054		26,162
Refunds	34,711		3,158
Administrative expenses	6,213		320
Total deductions	1,172,169		29,640
Change in net assets held in trust for:			
Pension benefits	1,604,373		
Employees' flexible benefits	59		
Individuals, organizations and other governments		518,242	(8,560)
Net assets, July 1	27,216,861	1,282,946	92,873
Net assets, June 30	$ 28,821,293	$ 1,801,188	$ 84,313

The notes to the financial statements are an integral part of this statement.

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NOTE 1 – **Summary of significant accounting policies**

A. **Financial reporting entity**

Introduction - As required by generally accepted accounting principles, these financial statements present the primary government (the State) and its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the primary government.

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.

2. The Community Services Agencies (CSAs) (Governmental Fund Types) listed below are to provide coordination of funds or programs for the care of the citizens of the State:

   Davidson County Community Services Agency
   Knox County Community Services Agency
   Memphis and Shelby County Community Services Agency
   Hamilton County Community Services Agency
   Northeast Community Services Agency
   East Tennessee Community Services Agency
   Upper Cumberland Community Services Agency
   Southeast Community Services Agency
   Mid-Cumberland Community Services Agency
   South Central Community Services Agency
   Northwest Community Services Agency
   Southwest Community Services Agency

   The Boards for these CSAs are appointed by the Governor and the budget must be approved by the State. Davidson, Hamilton, and Knox County CSAs have ceased operations effective the year ended June 30, 2006. Davidson County CSA has been dissolved. The boards of directors of Hamilton and Knox County CSAs voted to cease operations and transfer remaining fund balances to the state to be used for outstanding obligations.

3. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The Board of the agency consists of state officials, appointees of the Governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the State.

4. The Tennessee Education Lottery Corporation (Proprietary Fund Type) is responsible for the operation of a state lottery with net proceeds to be given to the State to be used for education programs and purposes in accordance with the Constitution of Tennessee. The corporation is governed by a board of directors composed of seven directors appointed by the Governor.

5. The Tennessee Board of Regents (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven technology centers. The Board is comprised of state officials and appointees by the Governor and the State provides a substantial amount of funding.

6. The University of Tennessee Board of Trustees (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the State. The Board is appointed by the Governor and the State provides a substantial amount of the funding.

7. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the Board consists of state officials; therefore, the State can impose its will on the Authority.

8. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the Governor and its budget is approved by the State. In addition, the issuance of bonds must be approved by the State Funding Board.

9. The Child Care Facilities Corporation (Proprietary Fund Type) purpose is to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The Board is comprised primarily of state officials. The State must approve the budget of the Corporation.

10. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the State in conjunction with a federal government program. The Board of the Authority consists primarily of state officials; therefore, the State is able to impose its will on the organization.

11. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.

Complete financial statements for each of the individual component units may be obtained at the following addresses:

Tennessee Housing Development Agency
1114 Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243

Tennessee Local Development Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

Tennessee State Veterans' Homes Board
345 Compton Road
Murfreesboro, TN 37130

Tennessee State School Bond Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

University of Tennessee
Office of the Treasurer
301 Andy Holt Tower
Knoxville, TN 37996-0100

Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217

Tennessee Education Lottery Corporation
Plaza Tower Metro Center
200 Athens Way
Nashville, TN 37228

All others may be obtained at the following address:
Finance & Administration
Division of Accounts
14th Floor William R. Snodgrass Tennessee Tower
312 Eighth Avenue North
Nashville, TN 37243-0298

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due. Also, agency funds, custodial in nature, do not recognize revenues and expenditures and do not present the results of operations or have a measurement focus.

Sales taxes, petroleum and vehicular related taxes and fees, and gross receipt taxes are considered to be available if received in the first 60 days of the new fiscal year. Federal grants, departmental services, and interest associated with the current fiscal period are all considered to be available if received in six months, however, tobacco settlement monies are considered to be available if received in twelve months. All other revenue items are considered to be measurable and available only when cash is received by the State.

The State reports the following major governmental funds:

The *general fund* is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *education fund* accounts for the financial resources associated with programs involving the Departments of Education and Higher Education.

The State reports the following major proprietary funds:

The *sewer treatment loan fund* accounts for loans made to local governments and utility districts for the construction of sewage treatment facilities.

The *employment security fund* accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Additionally, the State reports the following fund types:

Internal service funds account for services provided to other departments or agencies of the State, or to other governments, on a cost reimbursement basis. Internal service fund services include the provision of information technology, facilities management, fleet services, risk management, employee health insurance, accounting services, and purchasing services. Other services include printing, food, postal, records management, and products provided by Department of Correction inmates.

The *fiduciary fund types* are used to account for resources legally held in trust. Fiduciary activities include the employee pension plan and a flexible benefits plan. Also included is *Baccalaureate Education*, a trust created to permit the purchase of tuition units that may be used at certain higher education institutions. *Children in State Custody* is a fund used to hold monies for the benefit of children in State custody. *Oak Ridge Monitoring* is a trust funded by the federal government for the purpose of monitoring the Oak Ridge landfill for radioactive leakage. *Duck River Water Supply* is a trust for funds received from the Tennessee Valley Authority (TVA) for Duck River utility districts. Two agency funds account for 1) funds distributed to local governments in the state and 2) refundable deposits and other receipts held in trust until the State is authorized to disburse the funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of internal activity, interdepartmental revenues and expenditures (both direct and indirect expenditures), has been eliminated from the government-wide financial statements. An exception is that interfund services provided and used between functions have not been eliminated.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Investment income of certain proprietary funds is classified as operating revenue because those transactions are a part of the funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then, unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments — The State's cash and cash equivalents includes demand accounts, petty cash and monies in cash management pools. The liquidity of the cash management pools is sufficient to cover any withdrawal request by a participant. This classification also includes short-term investments with a maturity date within three months of the date acquired by the State. These short-term investments, which are not part of

the State Cash Pool, are stated at fair value. Investments in the State Cash Pool are stated at cost or amortized cost as this pool is a 2a7-like pool. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the State's policy to include cash management pools as cash.

Investments not in the State Cash Pool are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Investment income consists of realized and unrealized appreciation or depreciation in the fair value of investments. Interest income is recognized when earned. Securities and security transactions are recorded in the financial statements on trade-date basis.

2. Receivables and payables — All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

   All receivables are shown net of an allowance for uncollectibles. Receivables in the State's governmental and fiduciary funds primarily consist of taxes, interest, departmental services and federal revenues, see Note 1C.

3. Inventories and prepaid items —Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a Special Revenue Fund) and Motor Vehicle Management, Central Stores and General Services Printing (Internal Service Funds). The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

   Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets — Proceeds of the State's general obligation commercial paper program that remain unspent at year end are classified as restricted cash on the Statement of Net Assets. The commercial paper program provides short-term financing for the State's capital projects.

   Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Veterans' Homes Board – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments.

5. Capital assets — Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of infrastructure, are defined by the State as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of two years. Infrastructure assets are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

   The State holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

   Major outlays for capital assets and improvements are capitalized as projects are constructed.

   The State has elected to apply the modified approach to accounting for infrastructure—roadways and bridges. The modified approach is an alternative to depreciation that may be applied to infrastructure capital assets that meet certain requirements. Under the modified approach, depreciation expense is not recorded for these assets.

Instead, costs for both maintenance and preservation of these assets should be expensed in the period incurred. Additions and improvements are capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	20
Machinery and equipment	3-20

6. Compensated absences — It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State's policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.

7. Long-term obligations —In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

   In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Restricted net assets — Restricted net assets consist of net assets in which constraints are placed on the use of those net assets by either external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $2.18 billion restricted by the primary government, $394 million was by enabling legislation.

9. Fund equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Fiscal year end — The fiscal year end of the primary government and component units is June 30, except for the Dairy Promotion Board, a special revenue fund; which has a December 31 year end. Also, the Certified Cotton Growers' Organization, a component unit, has a December 31 year end.

11. Comparative data/reclassifications — Comparative total data for the prior year have not been presented.

NOTE 2 – **Reconciliation of government-wide and fund financial statements**

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $1,443.611 million difference are as follows (expressed in thousands):

Bonds payable	$ 929,601
Plus: Premium on bonds issued (to be amortized as interest expense)	39,355
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(2,852)
Less: Deferred charge for bond refundings (to be amortized as interest expense)	(24,020)
Commercial paper payable	121,726
Accrued interest payable	14,264
Capital leases payable	352
Claims and judgments	154,757
Compensated absences	204,493
Long-term accounts payable	5,935
Net adjustment to reduce *fund balance—total governmental funds* to arrive at *net assets—governmental activities*	$ 1,443,611

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $871.733 million difference are as follows (expressed in thousands):

Capital outlay	$ 928,855
Depreciation expense	(57,122)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 871,733

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $(21.147) million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation bonds	$ (108,393)
Issuance of commercial paper	(120,016)
Bond premium capitalized	(2,485)
Capital lease prepayment	12,500
Debt reduced:	
General obligation debt	82,032
Commercial paper redeemed	115,215
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ (21,147)

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $39.485 million difference are as follows (expressed in thousands):

Compensated absences	$ 13,153
Claims and judgments	(52,573)
Accrued interest	1,207
Capital lease	(131)
Amortization of deferred charge	40
Loss on disposal of capital assets	70,430
Loss on lease termination	8,182
Amortization of issuance costs	199
Amortization of bond premiums	(2,934)
Amortization of deferred amount on bond refunding	1,912
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 39,485

NOTE 3 – **Stewardship, compliance and accountability**

A. Budgetary process

Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Unencumbered appropriations generally lapse at the end of each fiscal year, with the encumbered appropriations being carried forward to the next year. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $78.131 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of encumbrances, contract obligations, and certain budgetary commitments in the highway fund. Because

these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis.

Encumbrance accounting is utilized for budgetary control purposes in governmental fund types. Encumbrances and contract obligations outstanding at year-end are typically reported as reservations of fund balance for subsequent year expenditure. Certain budgetary commitments outstanding at year-end in the highway fund are not reported as reservations of fund balance. However, it is the State's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment and these funds do not lapse at year-end, but are carried forward for subsequent year expenditure.

B. Deficit fund equity

The Certified Cotton Growers' Organization, a component unit, has a total net asset deficit of $15.918 million. This deficit occurred because a substantial amount of funds were borrowed, in previous years, to fund the balance of program costs. The monies borrowed are to be repaid by December 15, 2013. The General Services Purchasing fund, an internal service fund, has a total net asset deficit of $49 thousand. This deficit occurred as a result of increased expenditures due to Hurricane Katrina as well as higher rates for contractual services.

NOTE 4 – Accounting changes

The following schedule enumerates adjustments for the fiscal year ended June 30, 2006 (expressed in thousands):

	6/30/2005 Net Assets As Reported	Prior Period Adjustments	6/30/2005 Net Assets As Restated
Government-wide statements:			
Primary Government			
Governmental activities	$ 21,294,044	$ (26,824)	$ 21,267,220
Total primary government	$ 21,294,044	$ (26,824)	$ 21,267,220
Government-wide statements:			
Component Units	$ 3,834,281	$ 9,093	$ 3,843,374
Total component units	$ 3,834,281	$ 9,093	$ 3,843,374

Prior Period Adjustments

Primary Government—Governmental activities

- $42.242 million is a correction of an error resulting from the overstatement of infrastructure in prior years.
- $22.775 million is a correction of an error resulting from the understatement of general capital assets in prior years because certain buildings had not been recorded. Related accumulated depreciation was adjusted by $7.357 million.

Component Units—Tennessee Board of Regents

- The University of Memphis—$9.563 million is a correction of an error resulting from expensing construction in progress that should have been capitalized in prior years resulting in an increase to net assets.
- Other increases and decreases to correct errors at various institutions resulted in a decrease of $471 thousand.

Misclassification

Certain functions on the Statement of Activities have been corrected to reflect the appropriate classification of motor vehicle title registration fees. The fees should have been reported in the Law, Justice, and Public Safety function instead of General Government. Approximately $47.48 million was reclassified.

Change in Accounting Principle

The State has implemented the Governmental Accounting Standards Board's Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The standard also provides accounting and reporting guidance for all types of insurance recoveries.

The State has also implemented the Governmental Accounting Standards Board's Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This statement establishes and modifies requirements related to the supplementary information presented in the statistical section of the Comprehensive Annual Financial Report.

NOTE 5 – **Detailed notes on all funds**

A. **Deposits and investments**

Primary Government

The State's cash includes deposits in demand accounts, petty cash and monies in cash management pools. State statutes provide that funds in the state treasury be invested by the State Treasurer. The State Pooled Investment Fund (SPIF) is established by *Tennessee Code Annotated*, Section 9-4-603 "for the purpose of receiving and investing any money in the custody of any officer or officers of the state unless prohibited by statute to be invested." Participants in the SPIF include the general fund of the State and any department or agency of the State which is required by court order, contract, state or federal law or federal regulation to receive interest on invested funds and which are authorized by the State Treasurer to participate in the SPIF. In addition, funds in the State of Tennessee Local Government Investment Pool (LGIP) investment trust fund are consolidated with the SPIF for investment purposes only. The primary oversight responsibility for the investment and operations of the SPIF rests with the Funding Board of the State of Tennessee (Funding Board).

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited. Prior to the adoption of the current investment policy on December 14, 2004, allowable investments also included obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b).

In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the Baccalaureate Education System Trust (BEST), a private-purpose trust; and the Chairs of Excellence (COE) Trust, a permanent fund; are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.

As of June 30, 2006, the State's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS

Investment Type	Carrying Amount	United States[1] Treasury/Agency
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	$ 2,205,328	$ 2,205,328
U.S. Government TIPS	2,226,437	2,226,437
U.S. Government Agencies	3,959,914	
Mortgage-Backed		
Government Pass-through	3,583,131	380,846
Corporate Pass-through	291,774	
Collateralized Mortgage Obligations		
Government CMO's	24,922	
Corporate CMO's	78,291	
Corporate		
Corporate Bonds	1,882,794	
Corporate Asset-Backed	104,542	
Private Placements	210,049	
Yankee Bonds	61,555	
Supranationals	154,220	
Non-U.S. Fixed Income - Developed Markets		
Government/Sovereign	791,186	
Corporate	362,414	
Short Term		
Commercial Paper	2,432,369	
Agencies	679,841	
Total Debt Investments	19,048,767	$ 4,812,611
Other Investments		
Equity		
U.S.	8,342,690	
Non-U.S.	4,262,796	
Real Estate	936,980	
Commingled Funds		
U.S. Equity	14,492	
U.S. Fixed Income	39,896	
Money Market Funds	9,736	
Total Other Investments	13,606,590	
Total Investments	$ 32,655,357	

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS (continued)

Credit Quality Rating						
AAA	AA	A	BBB	BB	A1[2]	Not Rated[3]
S 2,443,912						S1,516,002
						3,202,285
291,774						
24,922						
78,291						
49,498	$249,423	S858,034	$712,725	$13,114		
59,040	489	499	44,514			
14,608	74,267	24,721	96,453			
		8,968	52,587			
154,220						
406,126	75,682	309,378				
282,100	9,566	31,579	39,169			
					$2,432,369	
						679,841
S 3,804,491	S 409,427	$1,233,179	S 945,448	$ 13,114	S 2,432,369	S 5,398,128

1. Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.
2. A1 is the highest rating category for short-term securities.
3. Includes securities that are implicitly guaranteed by the U.S. government but are not rated by Standard and Poor's or Moody's.

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the State's investments in debt securities as of June 30, 2006, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The SPIF's investment policy requires a AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2006, the State had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

The COE Trust's investment policy states that the majority of investments should be placed in high quality debt securities to produce adequate income with minimal risk. In addition, for short-term investments, the investment policy states that only the highest quality short-term debt issues should be purchased.

The BEST investment policy states that the trust may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. In addition, the policy requires that only the highest quality short-term debt issues, including commercial paper with ratings of A1 or P1, may be purchased.

2. Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than twenty percent (20%) of the book value of the pool, at the date of acquisition, is invested in a single United States government agency security and that such acquisition does not cause the SPIF's aggregate United States government agency holdings to exceed forty percent (40%) of the total book value of the pool on such date. In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to five percent (5%) of the total book value of the pool and limits such investments in any one commercial bank to the lesser of five percent (5%) of the portfolio's book value or $25 million. Prime commercial paper investments are limited to five percent (5%) of the total portfolio book value invested in any one single issuing corporation and the total holdings of an issuer's paper should not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper, with the maximum amount of a specific corporation's commercial paper limited to $100 million. Prime commercial paper shall not exceed forty percent (40%) of the total pool's book value. The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to $100 million. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, BEST or other State funds in any one issuer.

As of June 30, 2006, the combined SPIF, TCRS, COE Trust, BEST and other State funds held debt investments in certain organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

Issuer Organization	Carrying Amount	Percentage
Federal Home Loan Mortgage Corporation	$ 2,799,690	8.56
Federal National Mortgage Association	3,595,419	11.00

3. Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed ninety (90) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety-seven (397) calendar days. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than 0.5 percent from amortized cost. If it does, actions may include, but not be limited to, selling securities whose market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Collateralized certificates of deposit are limited by policy to maturities of one year or less. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 29 to 268 days at June 30, 2006. Interest rates on certificates of deposit held at June 30, 2006, ranged from 4.5% to 5.4%.

As of June 30, 2006, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type	Carrying Amount	Weighted Average Maturity (Months)
U.S. Government Agencies/Treasuries	$ 1,998,902	4.33
Commercial paper	1,787,010	0.40

The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a tight range around that index.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2006	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	$ 2,178,187	7.96
U.S. Government TIPS	2,206,484	8.14
U.S. Government Agencies	1,949,366	2.32
Mortgage-Backed		
Government Pass-through	3,554,902	4.15
Corporate Pass-through	291,774	7.03
Collateralized Mortgage Obligations		
Government CMO's	24,922	3.44
Corporate CMO's	78,291	.95
Corporate		
Corporate Bonds	1,869,589	5.53
Corporate Asset-Backed	103,095	4.02
Private Placements	209,510	5.45
Yankee Bonds	61,113	8.04
Supranationals	154,220	2.69
Non-U.S. Fixed Income		
Developed Markets		
Government/Sovereign	791,186	7.18
Corporate	362,414	4.63
Short Term		
Commercial paper	645,358	0.03
Agencies	674,053	0.45
Total Debt Investments	$ 15,154,464	

The investment policy for the COE Trust states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. The fixed income portfolio is benchmarked against the Lehman Government/Corporate Intermediate Index and tends to have a duration within a tight range around that index.

CHAIRS OF EXCELLENCE
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2006	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 26,848	7.00
U.S. TIPS	19,953	7.35
U.S. Government Agencies	11,939	2.25
Mortgage-Backed		
Government Pass-through	28,229	4.19
Corporate		
Corporate Bonds	13,205	2.66
Corporate Asset-Backed	1,447	2.30
Private Placements	539	3.64
Yankee Bonds	442	12.31
Short-term Agencies	5,788	.04
Total Debt Investments	$ 108,390	

The investment policy for BEST states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The fixed income portfolio is benchmarked against the Lehman Government/Corporate Intermediate Index and tends to have a duration within a tight range around that index.

Asset-Backed Securities – The TCRS invests in mortgage-backed securities that are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets. Investment terms related to these securities have been considered in the interest rate risk disclosure.

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2006, was as follows (expressed in thousands):

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
FOREIGN CURRENCY-DENOMINATED INVESTMENTS

Currency	Total Fair Value	Fixed Income	Equity	Cash
Australian Dollar	$ 205,373	$ 19,017	$ 186,007	$ 349
British Pound Sterling	1,043,531	77,253	956,063	10,215
Canadian Dollar	20,916		20,916	
Danish Krone	58,116		58,116	
Euro Currency	1,579,366	309,856	1,269,504	6
Hong Kong Dollar	137,048		137,048	
Japanese Yen	1,652,118	636,366	1,013,653	2,099
New Zealand Dollar	8,714		8,714	
Norwegian Krone	28,692		28,692	
Singapore Dollar	41,624		41,509	115
Swedish Krona	150,111		150,111	
Swiss Franc	238,851		238,851	
Total	$ 5,164,460	$ 1,042,492	$ 4,109,184	$ 12,784

5. Derivatives

The international securities in the TCRS' portfolio expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding as of June 30, 2006, has been reflected in the financial statements.

Component Units

The various component units are generally governed by the same State statutes as the State's policies described above.

1. University of Tennessee

The University is authorized by statute to invest funds in accordance with the University investment policies. Funds, other than endowment, annuity, and life income funds, invest similarly to the State policies. Endowment, annuity, and life income funds can be invested in equity securities and various other securities given prudent diversification.

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2006, the University's investments were rated as follows (expressed in thousands):

		Credit Quality Rating				
Rated Debt Instruments	Fair Value	Aaa	Aa1	Aa2	Aa3	A1
Cash Management Pool						
U.S. Treasuries	$ 66,028	$ 66,028				
U.S. Agencies	276,977	246,001		$ 25,518		
Commercial Paper		45,876				$ 45,876
Investments						
U.S. Treasuries	$ 10,805	$ 10,755				
U.S. Agencies	20,601	18,600		$ 2,001		
Corporate Bonds	22,047	967	$ 2,087	1,389	$ 4,107	$ 5,150
Municipal Bonds	2,765	917		475		57
Mutual Funds – Bonds	58,743	43,149		1,536		
Mortgages and Notes	858					
Total	$ 504,700	$ 386,417	$ 2,087	$ 30,919	$ 4,107	$ 51,083

(Continued)		Credit Quality Rating				
Rated Debt Instruments	A2	A3	Baa1	Baa2	Ba2	Unrated
Cash Management Pool						
U.S. Treasuries						
U.S. Agencies						$ 5,458
Commercial Paper						
Investments						
U.S. Treasuries						$ 50
U.S. Agencies						
Corporate Bonds	$ 2,900	$ 3,490	$ 566	$ 559		832
Municipal Bonds						1,316
Mutual Funds – Bonds					$ 1,452	12,606
Mortgages and Notes						858
Total	$ 2,900	$ 3,490	$ 566	$ 559	$ 1,452	$ 21,120

Concentration of Credit Risk

The University places no limit on the amount that may be invested in any one issuer. At June 30, 2006, more than five percent of the University's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 150,062	14.61
Federal National Mortgage Association	80,567	7.84

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2006, the University had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	10+
Cash Management Pool					
Cash Equivalents					
Commercial Paper	$ 45,876	$ 45,876			
U.S. Treasury	66,028	59,138	$ 6,890		
U.S. Agencies	276,977	107,800	169,177		
Investments					
U.S. Treasury	$ 10,805	$ 25	$ 4,555	$ 4,854	$ 1,371
U.S. Agencies	20,601	4,279	8,130	5,473	2,719
Corporate Bonds	22,047	5,361	9,666	7,020	
Municipal Bonds	2,765	337	152		2,276
Mortgages and Notes	858	368	14	476	
Bond Mutual Funds	46,137		2,898	12,018	31,221
	$ 492,094	$ 223,184	$ 201,482	$ 29,841	$ 37,587

University foundations' investments in the amount of S101.743 million are not included in these disclosures because the foundations utilize private-sector accounting standards.

Alternative Investments

The university has investments in forty-three limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2006, the estimated fair value of these assets is S147.4 million and total capital contributions less returns of capital equal $143.7 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The university's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. Tennessee Board of Regents

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regent's investment policies. Funds, other than endowment, invest similarly to the State policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2006, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating					
		AAA	AA	A	BBB	BB	Not Rated
U. S. Agencies	$ 53,259	$ 53,166	$ 47				$ 46
Corporate Bonds	8,181	352	1,526	$ 5,202	$ 582	$ 47	472
Domestic Bonds	170	86	84				
Commercial Paper	19,385		9,694	9,691			
Mutual Funds—Bonds	11,585						11,585
Collateralized Mortgage Obligation	205						205
Total Debt Instruments	$ 92,785	$ 53,604	$ 11,351	$ 14,893	$ 582	$ 47	$ 12,308

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2006, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Commercial Paper	$ 19,385	$ 19,385			
U.S. Treasuries	46,186	40,817	$ 763	$ 244	$ 4,362
U.S. Agencies	53,259	11,365	40,927	663	304
Domestic Bonds	170		63	107	
Corporate Bonds	8,181	724	4,370	2,947	140
Mutual Funds—Bonds	11,585				11,585
Total Debt Investments	$ 138,766	$ 72,291	$ 46,123	$ 3,961	$ 16,391

Certain of the System's foundations utilize private-sector accounting standards. Those foundations reported investments at fair value in the amount of $148.682 million.

3. Tennessee Housing Development Agency (THDA)

The Agency is authorized to establish policies for it funds to meet the requirements of bond resolutions and State statute. Funds are invested similarly to State policies.

The Agency's investment policy states that its portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The Agency may invest one hundred percent of its portfolio in U.S. government securities due to the absence of credit risk. A minimum of five percent of the par value of total investments must mature within five years. No more than fifty percent of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Credit Risk

The Agency's investments as of June 30, 2006, were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U. S. Treasury	Credit Quality Rating AAA	AA	A-1+	AA-	Not Rated
U. S. Agencies	$ 564,214		$ 240,089		$ 311,387	$ 5,045	$ 7,693
U. S. Treasuries	101,309	$ 101,309					
Municipal Securities	407			$ 407			
Variable-rate Securities	3,469		3,469				
Repurchase Agreements	89,000		22,000				67,000
Total Debt Instruments	$ 758,399	$ 101,309	$ 265,558	$ 407	$ 311,387	$ 5,045	$ 74,693

Concentration of Credit Risk

At June 30, 2006, more than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 385,100	50.78
Federal Home Loan Mortgage Corporation	62,034	8.18
Federal National Mortgage Association	101,272	13.35
Repurchase Agreements – U.S. Agency	89,000	11.74

Interest Rate Risk

As of June 30, 2006, the Agency had the following maturities (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 252,827	4.131
U.S. Agency Discount	311,387	0.027
U.S. Treasury Coupon	101,309	7.126
Municipal Securities	407	2.387
Variable Rate Securities	3,469	0.624
Repurchase Agreements	89,000	0.005
Total	$ 758,399	

B. Accounts and notes receivable

Receivables at June 30, 2006, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

	Primary Government						
	Accounts	Taxes	Government	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental Activities:							
General	$ 279,563	$ 625,494	$ 614,544	$ 27,250	$ 1,546,851	$ (76,952)	$ 1,469,899
Education	61	465,462	103,006		568,529	(32,804)	535,725
Nonmajor governmental	621	84,756	184,997	1,817	272,191	(407)	271,784
Internal Service	4,020		59	2	4,081	(58)	4,023
Total—governmental activities	$ 284,265	$ 1,175,712	$ 902,606	$ 29,069	$ 2,391,652	$ (110,221)	$ 2,281,431
Amounts not expected to be collected within one year		$ 29,607					$ 29,607
Business-type Activities:							
Employment Security	$ 43,836	$ 78,802	$ 1,933	$ 3,998	$ 128,569	$ (32,117)	$ 96,452
Sewer Treatment Loan				15	15		15
Nonmajor enterprise	2,742			2	2,744		2,744
Total—business-type activities	$ 46,578	$ 78,802	$ 1,933	$ 4,015	$ 131,328	$ (32,117)	$ 99,211

C. Capital assets

Capital asset activity for the year ended June 30, 2006, was as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,083,091	$ 120,241	$ (2,167)	$ 1,201,165
Infrastructure	16,362,547	666,531	(67,429)	16,961,649
Construction in progress	1,149,728	788,032	(674,838)	1,262,922
Total capital assets, not being depreciated	18,595,366	1,574,804	(744,434)	19,425,736
Capital assets, being depreciated:				
Structures and improvements	1,743,380	11,309	(848)	1,753,841
Machinery and equipment	542,678	61,366	(34,106)	569,938
Total capital assets being depreciated	2,286,058	72,675	(34,954)	2,323,779
Less accumulated depreciation for:				
Structures and improvements	(680,596)	(43,005)	621	(722,980)
Machinery and equipment	(351,997)	(48,589)	26,262	(374,324)
Total accumulated depreciation	(1,032,593)	(91,594)	26,883	(1,097,304)
Total capital assets, being depreciated, net	1,253,465	(18,919)	(8,071)	1,226,475
Governmental activities capital assets, net	$ 19,848,831	$ 1,555,885	$ (752,505)	$ 20,652,211

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental activities:	
General Government	$ 1,901
Education	1,357
Health and Social Services	7,507
Law, Justice and Public Safety	21,298
Recreation and Resource Development	10,969
Regulation of Business and Professions	633
Transportation	13,434
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	34,495
Total depreciation expense – governmental activities	$ 91,594

Highway Construction Commitments — At June 30, 2006, the Department of Transportation had contractual commitments of approximately $809.6 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($765.5 million) and general obligation bond proceeds ($44.1 million).

Discretely Presented Component Units

Capital asset activity for the year ended June 30, 2006, for the discretely presented component units are as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 139,727	$ 9,687	$ (2,196)	$ 147,218
Construction in progress	226,249	208,839	(93,798)	341,290
Total capital assets, not being depreciated	365,976	218,526	(95,994)	488,508
Capital assets, being depreciated:				
Infrastructure	215,812	9,313	(203)	224,922
Structures and improvements	2,586,530	102,879	(6,380)	2,683,029
Machinery and equipment	733,008	84,502	(70,964)	746,546
Total capital assets being depreciated	3,535,350	196,694	(77,547)	3,654,497
Less accumulated depreciation for:				
Infrastructure	(112,749)	(8,631)	449	(120,931)
Structures and improvements	(1,116,299)	(69,518)	3,621	(1,182,196)
Machinery and equipment	(448,289)	(64,250)	64,081	(448,458)
Total accumulated depreciation	(1,677,337)	(142,399)	68,151	(1,751,585)
Total capital assets, being depreciated, net	1,858,013	54,295	(9,396)	1,902,912
Total capital assets, net	$ 2,223,989	$ 272,821	$ (105,390)	$ 2,391,420

The University of Tennessee Foundations, and certain Tennessee Board of Regents Foundations utilize FASB standards; therefore, only the June 30, 2006, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Land	$ 15,331
Total capital assets, not being depreciated	15,331
Capital assets, being depreciated:	
Infrastructure	761
Structures and improvements	142,534
Machinery and equipment	4,680
Total capital assets being depreciated	147,975
Less: Total accumulated depreciation	(16,717)
Total capital assets, being depreciated, net	131,258
Total capital assets, net	$ 146,589

D. Interfund balances

1. Interfund balances at June 30, 2006, consisted of the following (expressed in thousands):

		DUE FROM						
		General Fund	Education	Employment Security	Nonmajor Governmental	Nonmajor Enterprise Funds	Internal Service Funds	Total
	General Fund		$ 153	$ 7,192	$ 45		$ 779	$ 8,169
D	Education	$ 121						121
U	Employment Security	382						382
E	Nonmajor Governmental	1,747						1,747
T	Internal Service Funds	3,186	215		7		4	3,412
O	Fiduciary Funds	12,962	452		1,878	$ 6	436	15,734
	Total	$ 18,398	$ 820	$ 7,192	$ 1,930	$ 6	$ 1,219	$ 29,565

The $7.192 million due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities.

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2006, consisted of the following (expressed in thousands):

		PAYABLE FROM COMPONENT UNITS					
		Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
P	PRIMARY GOVERNMENT:						
A	General Fund		$ 1	$ 90	$ 106	$ 5,194	$ 5,391
Y	Education Fund		69,865	1,140	1,311		72,316
A	Employment Security						
B	Nonmajor Governmental Funds			1,812	636	5,848	8,296
L	Nonmajor Enterprise Funds					1	1
E	Internal Service Funds			335	23	35	393
	Fiduciary Funds	$ 84		3,181	2,718	67	6,050
T							
O	Total	$ 84	$ 69,866	$ 6,558	$ 4,794	$ 11,145	$ 92,447

Tennesssee Education Lottery Corporation payable differs with the Education Fund receivable for the After School Program by $1.874 million due to differences in the estimation process.

3. COMPONENT UNITS RECEIVABLES

Component Units accounts receivable from the Primary Government at June 30, 2006, consisted of the following (expressed in thousands):

		RECEIVABLE FROM PRIMARY GOVERNMENT		
RECEIVABLE TO		General Fund	Nonmajor Governmental Funds	Total
	COMPONENT UNITS:			
	Tennessee Housing Development Agency	$ 1		$ 1
	Tennessee Board of Regents		$ 860	860
	University of Tennessee		1,063	1,063
	Nonmajor Component Units	4,229		4,229
	Total	$ 4,230	$ 1,923	$ 6,153

The Certified Cotton Growers' fiscal year end of December 31 caused a timing difference between its receivable and the General Fund payable in the amount of S1.945 million.

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2006, are as follows (expressed in thousands):

	Transfers In						
Transfers Out	General	Education	Nonmajor Governmental Funds	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Total
General		$ 401,944	$ 110,712	$ 3,212	$ 19,571	$ 51,235	$ 586,674
Education			458			122	580
Nonmajor Governmental Funds	$ 131,977		88,722			125	220,824
Totals	$ 131,977	$ 401,944	$ 199,892	$ 3,212	$ 19,571	$ 51,482	$ 808,078

Transfers are generally used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted resources from the general fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations.

In the fiscal year ended June 30, 2006, the general fund transferred $586.7 million to other funds in accordance with statute or budgetary authorizations for the following purposes: $396.2 million to subsidize the activities of the education fund, $94.6 million for capital outlay expenditures, $90.9 million to provide appropriations to finance various programs in other funds, $4.1 million to provide for debt service payments that were due, and $867.7 thousand for payments for interfund services used.

F. Lease obligations

Operating Lease Obligations — The State has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The State has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

For the Year(s) Ended June 30	Noncancelable Operating Leases
2007	$ 26,930
2008	23,575
2009	22,056
2010	16,225
2011	9,731
2012-2016	10,745
Total Minimum Payments Required	$ 109,262

Expenditures for rent under leases for the years ended June 30, 2006 and 2005, amounted to $44.7 million and $40.1 million, respectively.

Capital Lease Obligations – The State leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 10 years and the office equipment leases expire over the next 3 years. The effective interest rates for these leases range from 4.78% to 5.1%. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

		Governmental Activities
Assets:		
Land		$ 580
Buildings	3,873	
Less: Accumulated Depreciation	316	3,557
Equipment	410	
Less: Accumulated Depreciation	176	234
		$ 4,371

At June 30, 2006, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2007	$ 684
2008	684
2009	591
2010	437
2011	437
2012-2016	1,891
Total	4,724
Less - Interest	864
Less - Executory Costs	241
Present value of net minimum lease payments	$ 3,619

G. Lease receivables

Operating Lease Receivables —The State, as the lessor, entered into an operating lease with The Hassell Charitable Foundation for Ross Creek Golf Course, which was acquired by the State to be operated by the lessee. The 20-year lease agreement is dated September 12, 2003.

The following is a schedule by years of minimum future rentals on noncancelable leases as of June 30, 2006 (expressed in thousands):

Year ending June 30	
2007	$ 362
2008	402
2009	446
2010	487
2011	526
2012-2016	2,407
2017-2021	2,154
2022-2024	840
Total minimum future rentals	$ 7,624

Capital Lease Receivable — The State, as the lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Farmers' Market Facility. The lease term is 20 years with an option to renew the lease for an unlimited period of time. The agreement was signed in June 1995; an initial cash payment was made and the first of 19 payments began in fiscal year 1997. The State is subsidizing a part of the cost of this building.

The State, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Post-Mortem Facility. The lease term is 20 years beginning July 15, 2001, with an option to renew the lease for an unlimited period of time for a nominal amount. The State is subsidizing a part of the cost of this building.

Minimum future lease payments to be received as of June 30, 2006 (expressed in thousands):

Year Ended June 30	Total
2007	$ 719
2008	457
2009	458
2010	459
2011	459
2012-2016	2,039
2017-2021	1,007
Total minimum future lease payments	$ 5,598
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	$ 5,598
Plus: deferred charges	594
Net investment in direct financing lease	$ 6,192

Loss on Lease Termination – The operating lease with Tennessee Golf, LLP (lessee) was terminated through default on November 30, 2005. The state Department of Environment and Conservation took over operation of the four leased golf courses that were originally built by the state. The state called a $2 million letter of credit pledged as collateral for the lease agreement in the event of default. For accounting purposes, the lease met the GASB Statement 13 definition of leases with scheduled rent increases. The lease termination resulted in a loss of $8.18 million.

H. Long term debt

1. General Obligation Bonds – Bonds Payable at June 30, 2006, are shown below (expressed in thousands):

	Amount
Business-type Activities:	
General obligation refunding bonds, 1996 Series C, 4.6% to 4.9%, principal and interest due in amounts from $994 thousand in 2007 to S776 thousand in 2010	$ 3,451
Less: Unamortized bond refunding costs	(73)
Total Business-type Activities	$ 3,378
Governmental Activities:	
General obligation bonds, 2.25% to 6.5%, due in generally decreasing amounts of principal and interest from S82.367 million in 2007 to $205 thousand in 2026	S 507,279
General obligation refunding bonds, 1996 Series B, 4.6% to 4.875%, principal and interest due in amounts from $8.041 million in 2007 to S3.911 million in 2011	27,290
General obligation refunding bonds, 1999 Series A, 4% to 4.75%, principal and interest due in amounts from $33.652 million in 2007 to S5.398 million in 2015	163,383
General obligation refunding bonds, 2004 Series A, 3.6% to 5.1%, principal and interest due in amounts from $1.646 million in 2007 to S1.629 in 2012	8,595
General obligation refunding bonds, 2004 Series B, 4.82% from 2006 to 2010 and variable interest rates from 2011 to 2029, principal and interest due in amounts from S2.070 million in 2007 to $3.737 million in 2029	42,950
General obligation refunding bonds, 2004 Series C, 3% to 5.25%, principal and interest due in amounts from S10.721 million in 2007 to $11.388 million in 2018	235,444
General obligation refunding bonds, 2005 Series A, 3.5% to 5.25%, principal and interest due in amounts from S6.485 million in 2007 to S7.628 million in 2020	140,402
	1,125,343
Less: Unamortized bond refunding costs	(28,578)
Total Governmental Activities	$ 1,096,765

General obligation bonds issued during the year ended June 30, 2006:

November 2005 Bond Series 2005B in the amount of $145 million

The S145 million general obligation bond issue represents tax-exempt bonds maturing serially through 2026 at interest rates ranging from 4.1 percent to 5 percent. The bonds were sold at a premium of $3.324 million. Proceeds of the bond issue and premium were used to redeem commercial paper.

Prior-Year Defeasance of Debt

In prior years, the state defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements. On June 30, 2006, $350.075 million of bonds outstanding are considered defeased.

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2006, is shown below (expressed in thousands).

	Commercial Paper
General obligation commercial paper, interest rates ranging from 2.3% to 3.77% for tax exempt and 3.6% to 5.18% for taxable, varying maturities	$ 144,625

The full faith and credit of the State, together with certain tax revenues, are pledged to secure all general obligation bonds and commercial paper listed above.

In March 2000, the State instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of $100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed $250 million.

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2010. At June 30, 2006, $144.625 million of commercial paper was outstanding ($127.225 million tax exempt and $17.4 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2006, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2007	$ 96,788	$ 49,188	$ 145,976
2008	90,962	44,607	135,569
2009	90,208	40,508	130,716
2010	87,202	36,284	123,486
2011	86,259	31,671	117,930
2012-2016	372,329	99,764	472,093
2017-2021	208,073	36,764	244,837
2022-2026	86,763	9,457	96,220
2027-2029	10,210	1,000	11,210
	$1,128,794	$349,243	$ 1,478,037

The above principal for bonds does not reflect a $28.65 million deduction from bonds payable for the deferred amount on refunding.

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2006, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued July 1, 2005	Authorized	Canceled	Unissued June 30, 2006
Highway	$ 882,500	$ 83,500	$ 82,500	$ 883,500
Higher Education	75,368		8,820	66,548
Environment and Conservation	13,012		2,000	11,012
General Government	932,058	503,400	150,020	1,285,438
Local Development Authority	14,000		600	13,400
Totals	$ 1,916,938	$ 586,900	$ 243,940	$ 2,259,898

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2006, follows (expressed in thousands).

Changes In Long-Term Obligations

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Commercial Paper Payable:					
General Obligation Debt	$ 1,244,354	$ 283,323	$ (257,709)	$ 1,269,968	$ 92,390
Less Deferred Amount on Refundings	(30,949)		2,371	(28,578)	
Total Bonds and Commercial Paper Payable	1,213,405	283,323	(255,338)	1,241,390	92,390
Capital Leases	1,229	2,635	(245)	3,619	477
Compensated Absences	195,364	150,342	(136,880)	208,826	95,011
Claims and Judgments	298,421	39,232	(99,430)	238,223	28,216
Governmental Activities Long-Term Obligations	$ 1,708,419	$ 475,532	$ (491,893)	$ 1,692,058	$ 216,094
BUSINESS-TYPE ACTIVITIES					
Bonds Payable	$ 5,325		$ (1,874)	$ 3,451	$ 835
Less Deferred Amount on Refundings	(93)		20	(73)	
Total Bonds Payable	5,232		(1,854)	3,378	835
Deposits Payable		1,539		1,539	
Compensated Absences	84	54	(59)	79	37
Business-Type Activities Long-Term Obligations	$ 5,316	$ 1,593	$ (1,913)	$ 4,996	$ 872

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the General Fund and Special Revenue Funds liquidate compensated absences liabilities. Claims and judgments are obligations of Underground Storage Tanks and Highway Funds (special revenue funds), Risk Management (internal service fund) and the General Fund.

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I. Payables

Payables as of June 30, 2006, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total Payables
Governmental Activities:					
General	$ 809,354	$ 73,967		$ 49,454	$ 932,775
Education	142,779	3,229		11,343	157,351
Nonmajor governmental	132,152	9,423	$ 14,327	7,983	163,885
Internal Service	72,644	2,165			74,809
Total— governmental activities	$ 1,156,929	$ 88,784	$ 14,327	$ 68,780	$ 1,328,820
Business-Type Activities:					
Employment Security	$ 29			$ 12,194	$ 12,223
Sewer Treatment Loan	37				37
Nonmajor enterprise	39,402	$ 32		38	39,472
Total—business-type activities	$ 39,468	$ 32		$ 12,232	$ 51,732

J. Component units – condensed financial statements

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2006 (expressed in thousands):

Condensed Statement of Net Assets
Component Units

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, Investments, and Other Assets	$ 2,148,829	$ 101,925	$ 982,879	$ 1,492,306	$ 268,887	$ 4,994,826
Due from Primary Government	1		860	1,063	6,174	8,098
Due from Other Component Units					584,082	584,082
Restricted Assets	179,042	2,009			29,835	210,886
Capital Assets, Net	60	2,283	1,353,066	1,155,814	26,786	2,538,009
Total Assets	2,327,932	106,217	2,336,805	2,649,183	915,764	8,335,901
Liabilities						
Accounts Payable and Other Current Liabilities	46,657	24,705	158,931	211,085	28,735	470,113
Due to Primary Government	84	67,992	6,558	4,794	11,145	90,573
Due to Other Component Units			303,858	280,224		584,082
Long-Term Liabilities	1,847,840	13,189	78,098	278,584	837,958	3,055,669
Total Liabilities	1,894,581	105,886	547,445	774,687	877,838	4,200,437
Net Assets						
Invested in Capital Assets, Net of Related Debt	60	2,283	1,046,028	750,758	21,108	1,820,237
Restricted	428,757	331	380,031	875,404	2,096	1,686,619
Unrestricted	4,534	(2,283)	363,301	248,334	14,722	628,608
Total Net Assets	$ 433,351	$ 331	$ 1,789,360	$ 1,874,496	$ 37,926	$ 4,135,464

Condensed Statement of Activities
Component Units

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Component Units:				
Housing Development Agency	$ 275,548	$ 100,214	$ 176,034	
Tennessee Education Lottery	939,889	931,020	43	
Board of Regents	1,812,417	635,875	460,979	$ 95,748
University of Tennessee	1,458,880	436,164	623,486	42,863
Nonmajor Component Units	161,352	65,776	58,086	14,697
Total	$ 4,648,086	$ 2,169,049	$ 1,318,628	$ 153,308

General Revenues:	
Payments from Primary Government	
Unrestricted Grants and Contributions	
Unrestricted Investment Earnings	
Miscellaneous	
Total General Revenues	
Contributions to Permanent Funds	
Special Item: Community Services Agency Liquidation	
Change in Net Assets	
Net Assets – July 1	
Net Assets – June 30	

Significant transactions between the major component units–Tennessee Board of Regents (TBR), University of Tennessee (UT) and the Tennessee Education Lottery Corporation (TELC)–and the primary government consist of the following:

State appropriations from the Education Fund in the amount of $667.7 million were made to the TBR and $457.2 million to the UT.

Capital project expenditures in the amount of $104 million were made for the TBR and $24.6 million to the UT in the form of expenditures in the capital projects fund for projects at these school systems.

The TBR paid the primary government $22.9 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $269.9 million for the State's Lottery for Education Account.

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2006, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 13,327	$ 288,146
University of Tennessee	14,014	264,187
Total	$ 27,341	$ 552,333

Net (Expense) Revenue and Changes in Net Assets					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ 700					$ 700
	$ (8,826)				(8,826)
		$ (619,815)			(619,815)
			$ (356,367)		(356,367)
				$ (22,793)	(22,793)
700	(8,826)	(619,815)	(356,367)	(22,793)	(1,007,101)
		673,671	454,953	43,385	1,172,009
		22,071	3,675	22	25,768
127	1,996	24,239	16,672	289	43,323
		5,050		6	5,056
127	1,996	725,031	475,300	43,702	1,246,156
		11,628	42,213		53,841
				(806)	(806)
827	(6,830)	116,844	161,146	20,103	292,090
432,524	7,161	1,672,516	1,713,350	17,823	3,843,374
$ 433,351	$ 331	$ 1,789,360	$ 1,874,496	$ 37,926	$ 4,135,464

K. Major component units – long term debt

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2006, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, various Series, 1.1% to 8.125%, due in amounts of principal and interest ranging from $183.463 million in 2007 to $81.772 million in 2037	$ 1,577,730
Less: Unamortized bond refunding costs	(9,258)
Net Bonds Payable	$ 1,568,472
Single Family Mortgage Convertible Notes, interest rates ranging from 2.99% to 4.983% due August 9, 2007	$ 262,395

The revenue bonds and notes listed above are not obligations of the State. They are secured by pledge from the facilities to which they relate and by certain other revenues, fees and assets of the THDA.

Bond sales during the year ended June 30, 2006, included the following issues:

July 2005—Program bonds of $100 million
November 2005—Program bonds of $100 million
April 2006—Program bonds of $100 million

On July 28, 2005, the agency issued $100 million in Homeownership Program Bonds, Issue 2005-1. The agency used $28.74 million of these bonds to redeem notes.

On November 17, 2005, the agency issued $100 million in Homeownership Program Bonds, Issue 2005-2. The agency used $52.315 million to redeem notes.

On April 27, 2006, the agency issued $100 million in Homeownership Bonds, Issue 2006-1. The agency used $39.68 million to redeem notes.

Current Refundings

During the year ended June 30, 2006, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $7.265 million and in the Homeownership Program in the amount of $71.88 million. The respective carrying values of the bonds were $7.191 million and $71.63 million. This resulted in an expense to the Mortgage Finance Program of $74 thousand and the Homeownership Program of $250 thousand.

On July 1, 2005, a third drawdown in the amount of $34.62 million of Single Family Mortgage Program Notes, 2004CN–1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $16.185 million early redemption and $18.435 million current maturities). The carrying amount of these bonds was $34.596 million. The refunding resulted in a difference of $24 thousand between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on December 8, 2005 and after year-end.

On July 28, 2005, the agency issued $100 million in Homeownership Program Bonds, Issue 2005-1. On August 11, 2005, the agency used S28.74 million of these bonds to partially refund the convertible drawdown notes, 2002 CN-1 which were used July 1, 2003, November 3, 2003, January 2, 2004, and July 1, 2004 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by S4.404 million over the next 26.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2.604 million.

On November 17, 2005, the agency issued S100 million in Homeownership Bonds, Issue 2005-2. On December 8, 2005, the agency used $39.63 million of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used January 2, 2003, July 1, 2003, and April 8, 2004 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used $12.685 million of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used August 31, 2004, January 3, 2005, and July 1, 2005, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $11.38 million over the next 27.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of S7.376 million.

On December 8, 2005, a fourth drawdown was made on the Series 2004 CN-1 notes in the amount of $203.835 million. S167.225 million of these proceeds were used to refund 2002 CN-1 notes at maturity. S36.61 million of these proceeds were used on January 1, 2006, to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($24.685 million early redemption and S11.925 million current maturities). The carrying amount of these bonds was S36.67 million. The refunding resulted in a difference of $60 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On April 27, 2006, the agency issued $100 million in Homeownership Program Bonds, Issue 2006-1. On May 11, 2006, the agency used $39.68 million of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used October 1, 2004 and January 3, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by S4.091 million over the next 28 years and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $1.597 million.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2006, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds		Total
	Principal	Interest	Requirements
2007	S 105,865	$ 77,598	S 183,463
2008	52,425	75,605	128,030
2009	48,651	69,991	118,642
2010	47,845	66,800	114,645
2011	48,450	64,620	113,070
2012-2016	196,411	292,324	488,735
2017-2021	135,831	253,469	389,300
2022-2026	226,131	212,593	438,724
2027-2031	169,426	160,645	330,071
2032-2036	458,215	94,142	552,357
2037	79,185	2,587	81,772
	$ 1,568,435	$ 1,370,374	$ 2,938,809

The debt principal in the preceding table is S37 thousand less than that presented in the accompanying financial statements. Of this amount, $9.295 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2007-2009) in which the bonds mature. Also, $9.258 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of $65 million. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount of $200 million. On December 1, 2002, the Trust Indenture was supplemented to provide a maximum aggregate principal amount of S450 million.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002, the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2006 (expressed in thousands).

Beginning Balance	Additions	Reductions	Ending Balance
$311,900	S238,455	S287,960	$262,395

The S262.395 million of notes outstanding at year end consist of Series 2004 CN-1, which mature on August 9, 2007 with interest rates ranging from 2.99% to 4.983%.

L. Nonmajor component units – long term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2006, are shown below (expressed in thousands):

Revenue bonds, 2.4% to 5.125%, due in generally decreasing amounts of principal and interest from $5.91 million in 2007 to $26 thousand in 2034	$ 63,836
Less: Unamortized bond refunding costs	(1,783)
Net Bonds Payable	$ 62,053
Revenue bond anticipation notes, S35.401 million at 5% due May 17, 2007	$ 35,401

The revenue bonds and revenue bond anticipation notes listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TLDA.

On February 28, 2006, the Authority issued $37.415 million in revenue bonds, 2006 Series B at a discount of S204 thousand. The proceeds of the bonds and other funds were used to redeem revenue bond anticipation notes outstanding.

Current Refunding

On January 26, 2006, the Authority issued revenue refunding bonds in the amount of $20.07 million (2006 Series A) at a premium of $978 thousand to refund $22.005 million of 1997A bonds. Proceeds from the refunding and other funds were used to redeem the bonds on March 1, 2006. The net carrying amount of the refunded bonds was $20.701 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.524 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the straight-line method. The authority completed the refunding to reduce its total debt service payments over the next 15 years by $2.684 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1.473 million.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2006, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2007	$ 3,337	$ 2,580	$ 5,917
2008	3,537	2,379	5,916
2009	3,662	2,253	5,915
2010	3,787	2,125	5,912
2011	3,598	1,990	5,588
2012-2016	16,615	7,989	24,604
2017-2021	10,621	4,845	15,466
2022-2026	8,964	3,310	12,274
2027-2031	9,664	1,354	11,018
2032-2034	51	26	77
	$ 63,836	$ 28,851	$ 92,687

The above principal for revenue bonds does not reflect a $1.783 million deduction from bonds payable for the deferred amount on refunding.

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2006, are shown below (expressed in thousands):

Revenue bonds, various Series, 2.25% to 7.15%, due in decreasing amounts of principal and interest from $51.527 million in 2007 to $1.05 million in 2036	$ 601,177
Less: Unamortized bond refunding costs	(18,362)
Net Bonds Payable	$ 582,815
Commercial paper, interest rates ranging from 2.1% to 5.42%, varying maturities	$ 129,046

The revenue bonds and commercial paper listed above are not obligations of the State. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TSSBA.

On December 28, 2005, the Authority issued $17.545 million of Qualified Zone Academy Bonds (QZABs) to finance improvement loans for qualifying primary and secondary (K-12) schools in the state. The QZABs are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on the bonds. On each December 28, the 2005 QZAB borrowers make an annual principal payment into a bond fund held by the State Treasurer to pay the bonds at maturity on December 28, 2020.

On June 14, 2006, the Authority issued two new series of tax-exempt revenue bonds, 2006A and B in the amount of S53.82 million and S12.485 million respectively. The proceeds were used for new construction projects and to redeem S55.474 million of commercial paper.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2006, S149.61 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2006, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2007	$ 26,297	$ 25,045	$ 51,342
2008	26,825	24,327	51,152
2009	27,938	23,388	51,326
2010	29,048	22,348	51,396
2011	24,323	19,020	43,343
2012-2016	128,292	80,352	208,644
2017-2021	127,635	54,936	182,571
2022-2026	109,683	30,576	140,259
2027-2031	76,705	11,490	88,195
2032-2036	18,064	1,751	19,815
	$ 594,810	$ 293,233	$ 888,043

The above principal for revenue bonds is more than that presented on the accompanying financial statements by $11.995 million. Of this amount, $6.367 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2007-2010). In addition, S18.362 million, which is a deduction from bonds payable for the deferred amount on refunding, is not reflected in above presentation.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed S150 million. At June 30, 2006, S121.726 million of tax-exempt and $7.32 million of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from 2.1% to 5.0% during the fiscal year. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under an Advance Agreement, is WestLB New York branch with a termination date of March 7, 2011, subject to extension and earlier termination. The total available commitment is $152.25 million. The obligation of WestLB is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

M. Component units – changes in long term obligations

A summary of changes in long-term obligations for the year ended June 30, 2006, follows (expressed in thousands).

Changes In Long-Term Obligations

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee (UT) Loans and Notes Payable	$ 248,122	$ 57,712	$ (27,577)	$ 278,257	$ 14,160
Tennessee Board of Regents (TBR) Loans and Notes Payable	275,337	81,605	(50,536)	306,406	14,492
Tennessee Housing Development Agency (THDA) Bonds Payable	1,443,733	307,956	(173,959)	1,577,730	111,525
Less Deferred Amount on Refunding	(10,303)	(42)	1,087	(9,258)	
THDA Notes Payable	311,900	238,455	(287,960)	262,395	
Nonmajor Component Units Bonds, Notes, and Loans Payable	720,313	246,577	(109,281)	857,609	68,598
Less Deferred Amount on Refunding	(21,293)	(1,524)	2,275	(20,542)	
Total Revenue Bonds, Notes and Loans Payable	$ 2,967,809	$ 930,739	$ (645,951)	$ 3,252,597	$ 208,775
UT Compensated Absences	70,950	38,250	(38,387)	70,813	38,387
UT Due to Grantors, Deferred Revenue and Annuities Payable	60,011	1,935	(2,815)	59,131	
TBR Compensated Absences	47,997	29,412	(25,691)	51,718	10,815
TBR Due to Grantors and Deferred Revenue	20,670	1,677	(900)	21,447	
THDA Escrow Deposits, Arbitrage Rebate Payable, and Deferred Revenue	18,306	5,882	(7,797)	16,391	969
THDA Compensated Absences	639	59	(116)	582	285
Tennessee Education Lottery Corporation (TELC) Prizes Annuities Payable		2,573		2,573	156
TELC Due to After School Programs		9,265		9,265	
TELC Compensated Absences	414	411	(425)	400	172
TELC Deferred Lease	1,011	8	(68)	951	68
Nonmajor Component Units Compensated Absences	1,574	1,336	(2,019)	891	549
Nonmajor Component Units Capital Leases	9		(9)		
Component Units Long-Term Obligations	$ 3,189,390	$ 1,021,547	$ (724,178)	$ 3,486,759	$ 260,176

The Tennessee State School Bond Authority, a nonmajor component unit, issues revenue bonds to make loans to higher education institutions in the State. The nonmajor component units' bonds payable includes the indebtedness on which the University of Tennessee and the Tennessee Board of Regents' loans payable are based.

The University of Tennessee component units are not included in the above schedule. At year end, University of Tennessee foundations' long-term liabilities amounted to $148.584 million ($1.974 million due within one year).

N. Endowments – component units

If a donor has not provided specific instructions to the University of Tennessee and the Tennessee Board of Regents institutions, state law permits each institution to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the institution is required to consider the institution's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2006, net appreciation of $203.435 million is available to be spent, of which $199.666 million is restricted to specific purposes.

While some Tennessee Board of Regents institutions/foundations spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution/foundation, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2006, net appreciation of $31.298 million is available to be spent, of which $29.896 million is restricted to specific purposes.

NOTE 6 – Other information

A. Risk management

1. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the State. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2006, included 123 local education agencies and two education cooperatives, with 44,972 teachers and support personnel, and 4,734 retirees enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State retains an immaterial risk of loss by this fund.

   The Teacher Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2006, the Local Education Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Teacher Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2006	2005
Unpaid Claims at Beginning of Year	$ 22,125	$ 26,373
Incurred Claims:		
Provision for insured events of the current year	322,189	276,566
Increase (decrease) in provision for insured events of prior years	631	(5,692)
Total Incurred Claims Expenses	322,820	270,874
Payments:		
Claims attributable to insured events of the current year	294,834	254,441
Claims attributable to insured events of prior years	22,756	20,681
Total Payments	317,590	275,122
Total Unpaid Claims at End of the Year	$ 27,355	$ 22,125

2. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2006, included 35 counties, 82 municipalities and 253 quasi-governmental organizations, with 12,796 employees and 173 retirees maintaining coverage through one of four options: preferred provider plan, PPO limited plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

   The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel

coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2006, the Local Government Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2006	2005
Unpaid Claims at Beginning of Year	$ 6,865	$ 8,781
Incurred Claims:		
Provision for insured events of the current year	89,549	85,807
Increase (decrease) in provision for insured events of prior years	(176)	(2,894)
Total Incurred Claims Expenses	89,373	82,913
Payments:		
Claims attributable to insured events of the current year	82,730	78,943
Claims attributable to insured events of prior years	6,689	5,886
Total Payments	89,419	84,829
Total Unpaid Claims at End of the Year	$ 6,819	$ 6,865

3. Risk Management - It is the policy of the State not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The State's management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The State purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the State's officials and employees. The RMF is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence to an aggregate of $5 million. All agencies and authorities of the State participate in RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization (a component unit). The Tennessee Education Lottery Corporation (a component unit) participates in the RMF for general liability purposes but is responsible for its own workers' compensation coverage. RMF allocates the cost of providing claims servicing and

claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the State as a whole.

RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2006, the present value of the casualty liability as actuarially determined was $81.121 million (discounted at 3.5%). Changes in the balances of claims liabilities during fiscal years 2005 and 2006 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2005-2006	S 91,090	S 20,541	$ (28,165)	$ 83,466
2004-2005	S 92,557	S 28,873	$ (30,340)	$ 91,090

At June 30, 2006, RMF held S133.2 million in cash and cash equivalents designated for payment of these claims.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees, retirees, and former employees with work related injuries are eligible to participate. Fund members at June 30, 2006, included 68,333 employees and 7,006 retirees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

   The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2006, the State Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

   As discussed above, the Employee Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2006	2005
Unpaid Claims at Beginning of Year	$ 40,172	$ 47,673
Incurred Claims:		
Provision for insured events of the current year	578,232	502,152
Increase (decrease) in provision for insured events of prior years	(1,124)	(11,826)
Total Incurred Claims Expenses	577,108	490,326
Payments:		
Claims attributable to insured events of the current year	531,457	461,980
Claims attributable to insured events of prior years	39,048	35,847
Total Payments	570,505	497,827
Total Unpaid Claims at End of the Year	$ 46,775	$ 40,172

5. Medicare Supplement Insurance – In 1988, the State of Tennessee adopted legislation authorizing the provision of Medicare Supplement coverage for qualified retired state employees and teachers. Instituted in January 1989, the coverage was offered on a fully insured basis through December 2000. On January 1, 2001, the financial arrangement was converted to self-insured and a third plan option offered to participants.

   In accordance with Tennessee Code Annotated 8-27-701, et. seq, the State Insurance Committee established a Medicare Supplement Insurance Fund, a public entity risk pool, on January 1, 2001. On January 1, 2006, all Medicare Supplement participants were combined together into a single plan (NAIC Plan D), primarily due to changes in the Medicare Modernization Act of 2003. Fund members at June 30, 2006, include 22,976 retirees and dependents who selected the state's Medicare Supplement Plan, known as the "Tennessee Plan" (NAIC Plan D).

   The Medicare Supplement Insurance Fund assumes responsibility for determining plan benefits and eligibility, establishing premiums sufficient for fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants and complying with appropriate state and federal law and regulation. Plan participants are required to: pay premiums on time, provide for the filing of claims for services received, and report changes in eligibility of themselves and their dependents.

   The Medicare Supplement Insurance Fund establishes claims liabilities for the self-insured coverage based on estimates of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2006, reserve requirements were established of 14%, based upon claim payments for the prior 12 months. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Medicare Supplement Insurance Fund considers investment income in determining if a premium deficiency exists.

   The Medicare Supplement Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

   As discussed above, the Medicare Supplement Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2006	2005
Unpaid Claims at Beginning of Year	$ 5,773	$ 5,342
Incurred Claims:		
Provision for insured events of the current year	34,224	41,232
Increase (decrease) in provision for insured events of prior years	(320)	(419)
Total Incurred Claims Expenses	33,904	40,813
Payments:		
Claims attributable to insured events of the current year	29,433	35,459
Claims attributable to insured events of prior years	5,453	4,923
Total Payments	34,886	40,382
Total Unpaid Claims at End of the Year	$ 4,791	$ 5,773

B. Related organizations

The State's officials are also responsible for appointing the members of the boards of other organizations, but the State's accountability for these organizations does not extend beyond making appointments. The State appoints the board members of the Beech River Watershed Development Authority, Carroll County Watershed Authority, Goodwyn Institute Commission, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Competitive Export Corporation, Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., and Sports Festival, Inc.

C. Jointly governed organizations

The State in conjunction with 35 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 12 other states and Puerto Rico are members of the Southern Growth Policies Board. Tennessee paid $42,463 in fiscal year 2006 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid $22,500 in fiscal year 2006 for membership dues.

The Compact for Education was entered into with 49 other states, plus Puerto Rico, the Virgin Islands, American Samoa and District of Columbia. Tennessee paid $71,400 in fiscal year 2006 for membership dues.

The Interstate Mining Compact has 18 member states, including Tennessee. Tennessee paid $14,677 in fiscal year 2006 for membership dues.

The Southern States Energy Board is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 in fiscal year 2006 for membership dues.

The Southeast Interstate Low Level Radioactive Waste Compact has 6 member states, including Tennessee.

The Chickasaw Trail Economic Development Compact has two member states in conjunction with one county in each State.

D. Joint ventures

The State is a participant in a joint venture, the Tennessee-Tombigbee Waterway Development Compact, with the states of Alabama, Kentucky and Mississippi. The purpose of this compact is to promote the development of a navigable waterway connecting the Tennessee and Tombigbee Rivers and provide a nine foot navigable channel. The fiscal year end of the Tennessee Tombigbee Waterway is December 31. Financial statements for the Tennessee Tombigbee Waterway may be obtained at: P. O. Drawer 671, Columbus, MS 39703.

Presented below is summary financial data for this joint venture (expressed in thousands):

	2005	2004
Current Assets	$ 169	$ 202
Capital Assets	33	33
Total Assets	202	235
Invested in General Fixed Assets	33	33
Fund Balance	169	202
Total Liabilities and Fund Balance	202	235
Revenues	195	193
Expenditures	228	277
Excess of Revenues over (under) Expenditures	(33)	(84)
Beginning Fund Balance	202	286
Ending Fund Balance	$ 169	$ 202

E. Post employment health insurance benefits

1. General - The State offers an opportunity to its employees and eligible retirees to participate in a self-insured indemnity policy (preferred provider plan), a point of service plan, or health maintenance organizations. This post employment benefit is authorized under Tennessee Code Annotated 8-27-205. The indemnity policy provides benefits to plan participants in a comprehensive, major medical format involving a $300 calendar year deductible and a $1,300 per individual out-of-pocket limit. The plans incorporate typical provisions relating to utilization review, medical necessity, pre-existing conditions, coordination of benefits and subrogation of expenses. The plans offer benefit incentives for the use of designated providers and the plans maintain limitations on benefits provided for the treatment of mental illness and substance abuse.

2. Retirees - Retirees who are not yet eligible for Medicare benefits may continue participation in the plan subject to certain length of service and participation requirements. Upon Medicare eligibility, the retiree is afforded the opportunity to participate in a self-insured supplement policy not associated with the plan. The State pays a service determined amount for retirees who participate in the state sponsored Medicare supplement policy.

   The funds collected for the plan's operation are recorded in the employee group insurance account. The plan's premiums are intended to fund benefits on a pay-as-you-go basis and no specified reserves have been established to fund retiree health benefits. Current retiree premium rates are based upon the retiree's length of service and range from 20 percent to 40 percent of the plan's total premium. The State provides no direct funding of retiree health benefits.

   During the 2005-2006 fiscal year, the State Plan provided approximately $63.5 million in benefits to an average of 6,803 retired employee participants.

3. Cobra - Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay as you go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The State covered an average of 245 former employees during fiscal year 2005-2006, and the State Plan paid approximately $3 million in benefits to this group.

F. Pension plans

1. State Defined Benefit Plan - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

   The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

   Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 13.54% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2006, 2005, and 2004, were $474.879 million, $448.154 million, and $271.298 million respectively, equal to the required contributions for each year.

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 444 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the State cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

   The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or by calling (615) 741-7063.

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were $79.2 million for the year ended June 30, 2006.

   Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

4. Deferred Compensation - The State offers its employees two deferred compensation plans, one established pursuant to IRC Section 457 and the other pursuant to IRC Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants.

   The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2006, contributions totaling $89.6 million were made by employees participating in the plans. Another $9.8 million was contributed by the State as matching contributions up to $30 per employee per month for the 401(k) plan match.

G. Investment pool

The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of SPIF is the Local Government Investment Pool (LGIP) and is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the State and its component units, has been included in the various funds and component units.

A copy of the SPIF report can be obtained by writing Tennessee Treasury Department, Accounting Division, 9th Floor Andrew Jackson Building, Nashville, TN 37243-0231 or by calling (615) 741-7063.

H. Loan guarantees

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures the student loans up to 100% of their principal amounts. At June 30, 2006, TSAC was guarantor of $4.326 billion in student loans, substantially all of which were reinsured by the USDE. The State has no obligation under these student loan guarantees in the event of default.

I. Nashville correctional facilities revenue bonds

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville that were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2006, of $10.575 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

J. Contingencies

1. Litigation

   A case was previously brought against the State pursuant to the Civil Rights of Institutionalized Persons Act alleging that the constitutional rights of residents at one of the State's mental retardation facilities were being violated. A remedial order was approved in 1994, and in 2000 the court issued an order increasing the number of class members from 452 to an estimated 3,000. An appeal was filed and a stay granted, but an agreement to resolve this issue was not approved by the district court, however, a second agreement is pending a review by the district court.

   The State is also party to numerous other legal proceedings, many of which normally recur in governmental operations. Some of these lawsuits, including the one enumerated above, may have a future budgetary programmatic impact. They will be addressed in future budgets.

2. Federal grants

   The State receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially, all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies or their representatives. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities when the loss becomes probable and reasonably estimable.

   Audits of the Medical Assistance Program (TennCare) have resulted in likely questioned costs that could be determined to be disallowances by the U.S. Department of Health and Human Services (HHS). These questioned costs relate to expenditures of resources for Certified Public Expenditures as it relates to Graduate Medical Education facilities. The ultimate liability to the federal government is currently under dispute and if HHS were to impose a liability, the State would appeal the decision.

3. Tobacco settlement

   In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for

violations of state consumer and antitrust laws. The Master Settlement Agreement includes base payments to all states and territories through 2025, and continues in perpetuity. Tennessee's share of the base payments was originally projected at $4.8 billion through the year 2025. Since the agreement is complex, the annual payments have, and will continue to be, subject to a number of adjustments including inflation, volume, previously settled states and non-participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the State receiving higher payments. Other factors, such as volume adjustment and the market share adjustment can work to reduce annual payments. The non-participating manufacturers' adjustment is currently the subject of dispute, and some of the sums related to it are being withheld from the payments to the States. Third party lawsuits may also affect future payments. The net effect of these adjustments on future payments is unclear.

K. Subsequent events

Primary Government

Subsequent to June 30, the State issued $40 million in general obligation commercial paper. Also, in November 2006, the State issued 2006 Series A tax-exempt general obligation bonds in the amount of S110 million at a premium of $2.34 million to redeem commercial paper.

Also subsequent to June 30, three bond rating agencies upgraded the State's ratings. The Standard & Poor's rating changed from AA to AA+, Fitch Ratings upgraded the State from AA to AA+, and Moody's Investors Service changed the outlook on the State from "stable" to "positive."

Component Units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) issued S100 million of revenue bonds (2006-2) in July 2006 and redeemed $46.605 million of Series 2004 CN-1 Notes. In October 2006, the Agency issued S100 million of revenue bonds (2006-3) and redeemed S51.475 million of Series 2004 CN-1 Notes. Also, in July the Agency used mortgage prepayments and foreclosure proceeds to redeem S53.31 million of outstanding bonds. In addition, THDA sold notes in the Series 2004 CN-1 in the amount of S52.3 million to refund bonds in January 2007.

Subsequent to June 30, the Tennessee State School Bond Authority issued $69 million in commercial paper.

L. Special item

The Hamilton and Knox County Community Service Agencies transferred $958 thousand to the state as part of their liquidation proceedings. The Davidson County Community Service Agency has been absorbed by the Nashville/Davidson County Metropolitan Government.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
Infrastructure Assets Reported Using the Modified Approach

ROADWAYS

Measurement Scale

The state uses a Maintenance Rating Index (MRI) that addresses all elements of the roadway system. A statistical sample of randomly selected highway segments, representative of the entire subsystem, are inspected annually and rated in accordance with the MRI criteria. The following elements are rated: traveled pavement; shoulders; various roadside elements such as debris, grass height, slope erosion, and fencing; drainage elements such as culverts, cross drain pipes, and drain inlets; and traffic services such as signage, pavement markings, and guardrails. The MRI is a numerical score from 1 to 100, with 100 being a perfect score. The average MRI of all the rated segments is the reported condition level.

Established Condition Level

The state intends to maintain roadways so that the reported condition level each year does not fall below 75.

Assessed Conditions

The following table presents the average MRI of all rated segments.

For the Period Ended	Maintenance Rating Index
June 30, 2006	90.39
June 30, 2005	90.08
June 30, 2004	90.93

BRIDGES

Measurement Scale

The state maintains information on its 8,131 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

The state intends to maintain bridges so that 75 percent or more of the total deck area is not classified as structurally deficient or functionally obsolete.

Assessed Conditions

The following table presents the percentage of deck area whose condition assessment did not meet the criteria of structurally deficient or functionally obsolete according to the NBI.

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
June 30, 2006	85.80%
June 30, 2004	80.00%
June 30, 2002	79.86%
June 30, 2000	82.35%

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

The following table presents the state's estimate of spending to preserve and maintain the roadways and bridges at, or above, the "Established Condition Level" cited above, and the actual amount spent (in thousands):

For the Period Ended	Roadways		Bridges	
June 30	Estimated	Actual	Estimated	Actual
2006	$224,472	$277,442	$33,052	$38,327
2005	261,846	229,414	35,372	23,054
2004	290,027	260,066	29,247	36,514
2003	289,516	285,459	28,787	39,557
2002	290,583	278,683	28,830	20,527

Actual and estimated maintenance/preservation expenses are determined using the accrual basis of accounting.

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Required Supplementary Information
Major Governmental Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	$ 859,853	$ 1,323,941	$ 1,323,941	
Add:				
Prior year encumbrances reappropriated	8,243	8,243	8,243	
Adjusted fund balances (budgetary basis), July 1	868,096	1,332,184	1,332,184	
Revenues:				
Taxes	5,294,486	5,294,486	5,556,076	$ 261,590
Licenses, fines, fees, and permits	185,031	185,031	184,589	(442)
Interest on investments	45,000	45,000	77,406	32,406
Federal	7,425,428	7,697,100	6,922,657	(774,443)
Departmental services	2,267,704	2,437,413	2,096,614	(340,799)
Other	196,344	196,344	190,977	(5,367)
Other financing sources:				
Transfers in		131,977	131,977	
Insurance recoveries		414	414	
Total sources of financial resources	16,282,089	17,319,949	16,492,894	(827,055)
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	55,523	56,707	34,021	22,686
Secretary of State	42,808	42,888	35,592	7,296
Comptroller	77,169	77,031	72,199	4,832
Treasurer	45,942	50,290	44,975	5,315
Governor	9,434	9,383	5,783	3,600
Commissions	71,286	74,255	64,662	9,593
Finance and Administration	143,768	246,175	132,101	114,074
Personnel	11,491	14,430	11,976	2,454
General Services	21,220	21,225	17,745	3,480
Revenue	69,965	70,168	66,291	3,877
Miscellaneous Appropriations	96,837	47,769	14,521	33,248
Education				
Health and social services				
Veterans Affairs	4,054	4,102	3,685	417
Labor and Workforce Development	210,266	214,628	183,904	30,724
TennCare	8,518,842	8,629,027	7,027,723	1,601,304
Mental Health	251,478	266,531	251,004	15,527
Mental Retardation	731,852	866,591	776,473	90,118
Health	546,172	551,411	505,692	45,719
Human Services	1,918,741	1,990,791	1,928,988	61,803
Children's Services	601,341	633,976	600,127	33,849
Law, justice and public safety				
Judicial	235,607	235,926	225,649	10,277
Correction	601,162	583,805	559,285	24,520
Probation and Parole	67,323	69,956	63,854	6,102
Military	112,588	163,895	137,901	25,994
Bureau of Criminal Investigation	54,420	57,808	56,006	1,802
Safety	196,074	197,798	171,238	26,560
Recreation and resource development				
Agriculture	69,698	74,037	68,932	5,105
Tourist Development	18,879	18,890	16,199	2,691
Environment and Conservation	232,403	240,101	211,248	28,853
Economic and Community Development	135,889	142,655	82,134	60,521
Regulation of business and professions				
Commerce and Insurance	64,347	64,575	54,829	9,746
Financial Institutions	13,758	13,797	11,932	1,865
Intergovernmental revenue sharing	447,840	447,840	447,840	
Other financing uses				
Transfers out	429,622	586,674	586,674	
Total uses of financial resources	16,107,799	16,765,135	14,471,183	2,293,952
Fund balances (budgetary basis), June 30	$ 174,290	$ 554,814	$ 2,021,711	$ 1,466,897

Education Fund			
Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Original	Final		
$ 303,362	$ 303,362	$ 303,362	
667	667	667	
304,029	304,029	304,029	
3,794,300	3,794,300	3,907,086	$ 112,786
2,000	2,000	1,593	(407)
855,592	886,777	835,701	(51,076)
47,855	48,053	35,282	(12,771)
241,700	241,700	289,992	48,292
396,190	401,944	401,944	
5,641,666	5,678,803	5,775,627	96,824
5,463,701	5,503,829	5,346,611	157,218
402	580	580	
5,464,103	5,504,409	5,347,191	157,218
$ 177,563	$ 174,394	$ 428,436	$ 254,042

State of Tennessee
Required Supplementary Information
Reconciliation of Budget to GAAP
Note to RSI
For the Fiscal Year Ended June 30, 2006

(Expressed in thousands)

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

	General Fund	Education Fund
Sources of financial resources		
Actual amounts (budgetary basis)	$ 16,492,894	$ 5,775,627
Differences - budget to GAAP:		
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(1,332,184)	(304,029)
Other financing sources are inflows of budgetary resources, but are not revenues for financial statement purposes.	(132,391)	(401,944)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 15,028,319	$ 5,069,654
Uses of financial resources		
Actual amounts (budgetary basis)	$ 14,471,183	$ 5,347,191
Differences - budget to GAAP:		
Encumbrances for supplies, equipment, and construction are reported in the year the order is placed for budgetary purposes, but in the year the goods or services are received for financial reporting purposes.	(8,642)	(796)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(586,674)	(580)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 13,875,867	$ 5,345,815

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds A description of these funds is found later in this section.

Debt Service Fund The Debt Service Fund is maintained to account for accumulation of resources for, and the payment of, principal and interest on general long-term debt.

Capital Projects Fund The Capital Projects Fund is maintained to account for the acquisition or construction of major governmental capital assets financed principally by long-term bonds.

Permanent Funds A description of these funds is found later in this section.

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2006

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	$ 520,754	$ 1,454	$ 247,548	$ 40,260	$ 810,016
Investments				224,217	224,217
Receivables:					
Taxes	79,160	5,170		18	84,348
Due from other governments	176,272		8,726		184,998
Interest				1,817	1,817
Other	605		14	2	621
Due from other funds	1,747				1,747
Due from component units			7,660	636	8,296
Inventories, at cost	7,040				7,040
Prepayments		5			5
Deferred charges and other	3,442				3,442
Loans receivable	11,167	8,165			19,332
Restricted assets:					
Cash and cash equivalents			50,520		50,520
Total assets	$ 800,187	$ 14,794	$ 314,468	$ 266,950	$ 1,396,399
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 115,683	$ 204	$ 27,574	$ 4,282	$ 147,743
Due to other funds	1,930				1,930
Due to component units				1,923	1,923
Unearned revenue	59,174	9,072	5,650		73,896
Deposits payable	1,878				1,878
Payable from restricted assets			11,303		11,303
Other	20,014	141			20,155
Total liabilities	198,679	9,417	44,527	6,205	258,828
Fund balances:					
Reserved for:					
Related assets	7,040				7,040
Encumbrances and contracts	246,515		220,192		466,707
Specific purposes:					
Other specific purposes	3,051				3,051
Permanent funds:					
Expendable				128,215	128,215
Nonexpendable				132,530	132,530
Unreserved, undesignated reported in:					
Special revenue funds	344,902				344,902
Debt service fund		5,377			5,377
Capital projects fund			49,749		49,749
Total fund balances	601,508	5,377	269,941	260,745	1,137,571
Total liabilities and fund balances	$ 800,187	$ 14,794	$ 314,468	$ 266,950	$ 1,396,399

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - By Fund Type
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues					
Taxes:					
Sales	$ 46,267	$ 46,439			$ 92,706
Fuel	754,819	82,500			837,319
Business	4,479	146,500			150,979
Other	29,069				29,069
Licenses, fines, fees, and permits	362,178	2,626		$ 1,951	366,755
Interest on investments	10,974			13,695	24,669
Federal	801,643		$ 8,731		810,374
Departmental services	50,548	1,100	55,424		107,072
Other	7,627		2,339	129	10,095
Total revenues	2,067,604	279,165	66,494	15,775	2,429,038
Expenditures					
Current:					
General government	31,288				31,288
Education				7,352	7,352
Law, justice and public safety	5,604				5,604
Recreation and resources development	167,126			531	167,657
Regulation of business and professions	26,134				26,134
Transportation	1,477,504				1,477,504
Intergovernmental revenue sharing	290,509				290,509
Debt service:					
Bond principal retirement		82,032			82,032
Commercial paper retirement		600	3,900		4,500
Bond interest		45,995			45,995
Commercial paper interest		3,324			3,324
Debt issuance costs		1,082			1,082
Capital outlay			253,229		253,229
Total expenditures	1,998,165	133,033	257,129	7,883	2,396,210
Excess (deficiency) of revenues over (under) expenditures	69,439	146,132	(190,635)	7,892	32,828
Other financing sources (uses)					
Bond and commercial paper issued			228,409		228,409
Commercial paper redeemed			(109,908)		(109,908)
Bond premium		2,485			2,485
Insurance claims recoveries			1,256		1,256
Transfers in	94,505	4,112	100,873	402	199,892
Transfers out	(67,102)	(153,722)			(220,824)
Total other financing sources (uses)	27,403	(147,125)	220,630	402	101,310
Net changes in fund balances	96,842	(993)	29,995	8,294	134,138
Fund balances, July 1	504,666	6,370	239,946	252,451	1,003,433
Fund balances, June 30	$ 601,508	$ 5,377	$ 269,941	$ 260,745	$ 1,137,571

NONMAJOR SPECIAL REVENUE FUNDS

Specific revenues, earmarked to finance particular activities of government, are accounted for in the Special Revenue Funds. A brief description of each fund follows.

Highway Fund This fund is maintained to account for revenues and expenditures associated with programs of the Department of Transportation. Funding of these programs is accomplished primarily from dedicated highway user taxes and funds received from the various federal transportation agencies. All federal funds accruing to the Highway Fund are received on a reimbursement basis covering costs incurred. It is the State's practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. This front-end state funding, together with multi-year disbursements on most projects, results in large cash balances in this fund. Effective July 1, 1986, the Department of Transportation began earning interest on certain unspent monies for a new highway construction program, while the General Fund earns the interest on the other highway program monies.

Wildlife Resources Agency This agency is responsible for the preservation, management, enhancement and protection of the state's wildlife resources and their environs. An additional responsibility is the enforcement of boating safety on state lakes and streams. Revenues are derived principally from hunting and fishing licenses, fees and permits.

Criminal Injuries Compensation The Treasury Department administers this fund for the award of compensation to victims (or their dependents) who suffer personal injury or death as a result of a criminal act. The primary revenue source is the privilege tax levied by the courts at the time of conviction of the offender.

Solid Waste This program is administered by the Department of Environment and Conservation. Revenues collected for a tipping fee on solid waste are used to provide grants to local governments to reduce the solid waste going into landfills.

Job Skills This program is administered by the Department of Economic and Community Development. Revenues are collected from a tax on employer's wages. The revenues will be used to enhance employment opportunites and to meet the needs of existing and new industries in the state.

Help America Vote This program is administered by the Secretary of State. Federal funds, along with state matching dollars, are used in implementing the provisions of the federal Help America Vote Act. The provisions of the act require the funds be used to improve election administration and to replace punch card and lever voting machines.

Environmental Protection This program is administered by the Department of Environment and Conservation. Revenues collected from the various fees under the environmental protection fund are used to offset the cost of administering regulatory environmental programs.

Hazardous Waste This program is administered by the Department of Environment and Conservation. Revenues collected from applicants and holders of storage, treatment or disposal permits of hazardous waste are used to supervise the construction, operation, maintenance, closure and, where necessary, the post-closure care of hazardous waste facilities.

Parks Acquisition This program is administered jointly by the Departments of Environment and Conservation, Agriculture and Wildlife Resources. Revenues collected from the transfer of real property are used to acquire parks by both local and state governments.

Supreme Court Boards This organization was formed by the Tennessee Supreme Court to consider and investigate any alleged ground for discipline or alleged incapacity of any attorney, and to provide continuing legal education for attorneys. Revenues are collected from attorneys.

Underground Storage Tanks This program is administered by the Department of Environment and Conservation. Revenues are collected primarily from a tax of four tenths of a cent per gallon on petroleum products and an annual fee on owners and operators of underground storage tanks containing petroleum substances.

Enhanced Emergency 911 Service This program is administered by the Department of Commerce and Insurance. Revenues are collected from a monthly fee on users of cellular telephone services. This fee is used to enhance the effectiveness of response times when a cellular user calls 911.

Community Development This fund is used to account for the federal monies received under the Community Development Block Grant Program.

Driver Education This program is designed and coordinated by the Department of Safety. Highway safety is promoted by providing driver education, instruction and training in schools, colleges and community organizations. The $2 fee for moving traffic violations is the source of funding for this program.

Abandoned Land Program This program is administered by the Department of Environment and Conservation. Revenues collected from surface mining permit fees and forfeited performance bonds are used to reclaim and restore lands affected by abandoned mining operations.

Agricultural Non-Point Water Pollution This program is administered by the Department of Agriculture. Revenues collected from the transfer of real property are used to abate pollution from agricultural sources.

Regulatory Boards This program is administered by the Department of Commerce and Insurance. Revenues are collected from fees assessed on licenses to real estate brokers, affiliate real estate brokers or auctioneers. These revenues are used to pay court judgments for violations by brokers, contractors or auctioneers of the applicable acts or of any rules promulgated by the appropriate officials.

Salvage Title Enforcement This program is administered by the Department of Safety. Revenues are collected on the titlement of salvage vehicles and are used to enforce motor vehicle title and salvage laws and inspection of rebuilt vehicles.

Dairy Promotion Board This Board was formed to promote the consumption of milk and milk products. Revenue is derived from an assessment against commercial milk and milk product producers.

Drycleaner's Environmental Response This program is administered by the Department of Environment and Conservation. Revenues collected from drycleaners are an annual registration fee and a fee for the various drycleaning solvents used.

Agricultural Regulatory Fund This program is administered by the Department of Agriculture. Revenues are collected from fees on the various agricultural related industries regulated by the department. These fees are then used in the administration of this regulatory function.

Tennessee Regulatory Authority The authority is responsible for executing and enforcing all statutes governing utilities. Revenues are derived principally from inspection and supervision fees.

Small and Minority Owned Business Assistance This program provides loans and loan guarantees and technical assistance to small and minority-owned companies. Revenues collected during fiscal years 1997-2001, were derived from a fee on telecommunication service providers.

Sex Offender Treatment Program This program was formed to standardize the evaluation, identification, treatment and continued monitoring of sex offenders. Revenue is derived from a fine on those convicted of a sex offense.

Fraud and Economic Crime This program is administered by the District Attorneys General of the State. Revenues are collected from individuals prosecuted for bad checks. These monies are used to increase resources available to prosecute bad check cases.

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006

(Expressed in Thousands)

	Highway	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote
Assets						
Cash and cash equivalents	$ 243,887	$ 35,179	$ 9,485	$ 13,346	$ 21,472	$ 49,861
Receivables:						
Taxes	75,744	58	402	1,335		
Due from other governments	172,869	2,873				
Other	269	8		1		
Due from other funds	1,741	4			2	
Inventories, at cost	7,040					
Deferred charges and other	3,442					
Loans receivable	759					
Total assets	$ 505,751	$ 38,122	$ 9,887	$ 14,682	$ 21,474	$ 49,861
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 93,259	$ 2,758	$ 6,751	$ 3,872	$ 1,846	$ 1,965
Due to other funds	1,495	290		9	2	
Unearned revenue	10,881					45,710
Deposits payable	1,877					
Other	20,014					
Total liabilities	127,526	3,048	6,751	3,881	1,848	47,675
Fund balances:						
Reserved for:						
Related assets	7,040					
Encumbrances and contracts	244,124	2,326				
Other specific purposes	3,051					
Unreserved	124,010	32,748	3,136	10,801	19,626	2,186
Total fund balances	378,225	35,074	3,136	10,801	19,626	2,186
Total liabilities and fund balances	$ 505,751	$ 38,122	$ 9,887	$ 14,682	$ 21,474	$ 49,861

(continued on next page)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development
$ 13,940	$ 7,450	$ 20,418	$ 3,072	$ 13,638	$ 50,390	$ 2,339
				1,562		
	151			197		
			287	1		
						10,408
$ 13,940	$ 7,601	$ 20,418	$ 3,359	$ 15,398	$ 50,390	$ 12,747
$ 3	$ 272	$ 1,261	$ 103	$ 1,090	$ 1,133	
	23	24		35	5	
	1,384		19	1,180		
3	1,679	1,285	122	2,305	1,138	
13,937	5,922	19,133	3,237	13,093	49,252	$ 12,747
13,937	5,922	19,133	3,237	13,093	49,252	12,747
$ 13,940	$ 7,601	$ 20,418	$ 3,359	$ 15,398	$ 50,390	$ 12,747

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2006

(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
Assets						
Cash and cash equivalents	$ 1,331	$ 926	$ 2,773	$ 4,062	$ 1,101	$ 33
Receivables:						
Taxes	52					
Due from other governments		25				
Other						33
Due from other funds						
Inventories						
Deferred charges and other						
Loans receivable						
Total assets	$ 1,383	$ 951	$ 2,773	$ 4,062	$ 1,101	$ 66
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 5	$ 100	$ 446	$ 8	$ 14	$ 61
Due to other funds	1				4	
Unearned revenue						
Deposits payable						
Other						
Total liabilities	6	100	446	8	18	61
Fund balances:						
Reserved for:						
Related assets						
Encumbrances and contracts	6			35		
Other specific purposes						
Unreserved	1,371	851	2,327	4,019	1,083	5
Total fund balances	1,377	851	2,327	4,054	1,083	5
Total liabilities and fund balances	$ 1,383	$ 951	$ 2,773	$ 4,062	$ 1,101	$ 66

Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 4,517	$ 3,583	$ 4,199	$ 11,795	$ 177	$ 1,780	$ 520,754
				7		79,160
		157				176,272
		6				605
						1,747
						7,040
						3,442
						11,167
$ 4,517	$ 3,583	$ 4,362	$ 11,795	$ 184	$ 1,780	$ 800,187
$ 525		$ 190		$ 21		$ 115,683
2		40				1,930
						59,174
		1				1,878
						20,014
527		231		21		198,679
						7,040
		24				246,515
						3,051
3,990	$ 3,583	4,107	$ 11,795	163	$ 1,780	344,902
3,990	3,583	4,131	11,795	163	1,780	601,508
$ 4,517	$ 3,583	$ 4,362	$ 11,795	$ 184	$ 1,780	$ 800,187

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Highway	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote
Revenues						
Taxes:						
Sales	$ 46,267					
Fuel	736,238	$ 520				
Business	4,479					
Other		7,313	$ 4,351	$ 5,539		
Licenses, fines, fees, and permits	214,862	36,484	2,872	5,310		
Interest on investments	38	1,211	363	597	$ 898	$ 2,313
Federal	762,968	21,762	3,177	13		9,537
Departmental services	39,730	7,057		101		
Other	7,436		190			
Total revenues	1,812,018	74,347	10,953	11,560	898	11,850
Expenditures						
General government			11,460			12,216
Law, justice and public safety						
Recreation and resources development		70,876		14,298	3,140	
Regulation of business and professions						
Transportation	1,477,504					
Intergovernmental revenue sharing	290,509					
Total expenditures	1,768,013	70,876	11,460	14,298	3,140	12,216
Excess (deficiency) of revenues over (under) expenditures	44,005	3,471	(507)	(2,738)	(2,242)	(366)
Other financing sources (uses)						
Transfers in	92,500	955				
Transfers out	(66,977)	(125)				
Total other financing sources (uses)	25,523	830				
Net change in fund balances	69,528	4,301	(507)	(2,738)	(2,242)	(366)
Fund balances, July 1	308,697	30,773	3,643	13,539	21,868	2,552
Fund balances, June 30	$ 378,225	$ 35,074	$ 3,136	$ 10,801	$ 19,626	$ 2,186

(continued on next page)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development
				$ 18,061		
		$ 7,312				
$ 38,334			$ 3,005	5,267	$ 42,492	
496	$ 220	844	115	452	1,795	$ 469
	1,861	572		1,423		
	3,030	253	239	66		
			1			
38,830	5,111	8,981	3,360	25,269	44,287	469
			3,165			
35,867	5,056	7,842		18,655		1,665
					25,955	
35,867	5,056	7,842	3,165	18,655	25,955	1,665
2,963	55	1,139	195	6,614	18,332	(1,196)
	1,000					
	1,000					
2,963	1,055	1,139	195	6,614	18,332	(1,196)
10,974	4,867	17,994	3,042	6,479	30,920	13,943
$ 13,937	$ 5,922	$ 19,133	$ 3,237	$ 13,093	$ 49,252	$ 12,747

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
Revenues						
Taxes:						
Sales						
Fuel						
Business						
Other			$ 3,375			$ 1,083
Licenses, fines, fees, and permits	$ 614	$ 13		$ 313	$ 1,538	
Interest on investments		37	114	158		
Federal						
Departmental services		25		12		2
Other						
Total revenues	614	75	3,489	483	1,538	1,085
Expenditures						
General government						
Law, justice and public safety	353				648	
Recreation and resources development		100	3,378			1,085
Regulation of business and professions				179		
Transportation						
Intergovernmental revenue sharing						
Total expenditures	353	100	3,378	179	648	1,085
Excess (deficiency) of revenues over (under) expenditures	261	(25)	111	304	890	-
Other financing sources (uses)						
Transfers in						
Transfers out						
Total other financing sources (uses)						
Net change in fund balances	261	(25)	111	304	890	
Fund balances, July 1	1,116	876	2,216	3,750	193	5
Fund balances, June 30	$ 1,377	$ 851	$ 2,327	$ 4,054	$ 1,083	$ 5

Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
						$ 46,267
						754,819
						4,479
				$ 96		29,069
$ 986	$ 2,804	$ 5,970			$ 1,314	362,178
207	172		$ 469		6	10,974
		330				801,643
5		(21)		49		50,548
						7,627
1,198	2,976	6,279	469	145	1,320	2,067,604
		7,612				31,288
				147	1,291	5,604
1,907	3,257					167,126
						26,134
						1,477,504
						290,509
1,907	3,257	7,612		147	1,291	1,998,165
(709)	(281)	(1,333)	469	(2)	29	69,439
				50		94,505
						(67,102)
				50		27,403
(709)	(281)	(1,333)	469	48	29	96,842
4,699	3,864	5,464	11,326	115	1,751	504,666
$ 3,990	$ 3,583	$ 4,131	$ 11,795	$ 163	$ 1,780	$ 601,508

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Highway		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 6,345	$ 6,345	
Add:			
Prior year encumbrances liquidated	131	131	
Contract reserves reappropriated	294,931	294,931	
Adjusted fund balances (budgetary basis), July 1	301,407	301,407	
Revenues:			
Taxes	750,116	786,984	$ 36,868
Licenses, fines, fees, and permits	218,120	214,862	(3,258)
Interest on investments		38	38
Federal	3,031,044	762,968	(2,268,076)
Departmental services	64,402	39,730	(24,672)
Other	4,680	7,436	2,756
Other financing sources - transfers in	92,500	92,500	
Total sources of financial resources	4,462,269	2,205,925	(2,256,344)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation	4,153,143	1,841,390	2,311,753
Intergovernmental revenue sharing	286,700	290,509	(3,809)
Other financing uses-transfers out	66,977	66,977	
Total uses of financial resources	4,506,820	2,198,876	2,307,944
Fund balances (budgetary basis), June 30	$ (44,551)	$ 7,049	$ 51,600

(continued on next page)

	Wildlife Resources Agency			Criminal Injuries Compensation		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
	$ 28,967	$ 28,967		$ 3,643	$ 3,643	
	7	7				
	28,974	28,974		3,643	3,643	
	7,813	7,833	$ 20	5,772	4,351	$ (1,421)
	37,587	36,484	(1,103)	3,100	2,872	(228)
		1,211	1,211		363	363
	18,035	21,762	3,727	3,200	3,177	(23)
	8,589	7,057	(1,532)			
				602	190	(412)
	955	955				
	101,953	104,276	2,323	16,317	14,596	(1,721)
				13,276	11,460	1,816
	82,835	71,403	11,432			
	125	125				
	82,960	71,528	11,432	13,276	11,460	1,816
	$ 18,993	$ 32,748	$ 13,755	$ 3,041	$ 3,136	$ 95

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Solid Waste		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 13,539	$ 13,539	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	13,539	13,539	
Revenues:			
Taxes	5,489	5,539	$ 50
Licenses, fines, fees, and permits	5,129	5,310	181
Interest on investments		597	597
Federal		13	13
Departmental services	234	101	(133)
Other			
Other financing sources - transfers in			
Total sources of financial resources	24,391	25,099	708
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	15,202	14,298	904
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Intergovernmental revenue sharing			
Other financing uses-transfers out			
Total uses of financial resources	15,202	14,298	904
Fund balances (budgetary basis), June 30	$ 9,189	$ 10,801	$ 1,612

(continued on next page)

Job Skills			Help America Vote		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 21,868	$ 21,868		$ 2,552	$ 2,552	
21,868	21,868		2,552	2,552	
506	898	$ 392		2,313	$ 2,313
			28,000	9,537	(18,463)
22,374	22,766	392	30,552	14,402	(16,150)
			28,470	12,216	16,254
9,506	3,140	6,366			
9,506	3,140	6,366	28,470	12,216	16,254
$ 12,868	$ 19,626	$ 6,758	$ 2,082	$ 2,186	$ 104

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Environmental Protection		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 10,974	$ 10,974	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	10,974	10,974	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	40,271	38,334	$ (1,937)
Interest on investments		496	496
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	51,245	49,804	(1,441)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	40,271	35,867	4,404
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Intergovernmental revenue sharing			
Other financing uses-transfers out			
Total uses of financial resources	40,271	35,867	4,404
Fund balances (budgetary basis), June 30	$ 10,974	$ 13,937	$ 2,963

(continued on next page)

	Hazardous Waste			Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
	$ 4,867	$ 4,867		$ 17,994	$ 17,994	
	4,867	4,867		17,994	17,994	
				7,312	7,312	
		220	$ 220		844	$ 844
	2,007	1,861	(146)		572	572
	3,947	3,030	(917)		253	253
	1,000	1,000				
	11,821	10,978	(843)	25,306	26,975	1,669
	11,310	5,056	6,254	8,354	7,842	512
	11,310	5,056	6,254	8,354	7,842	512
	$ 511	$ 5,922	$ 5,411	$ 16,952	$ 19,133	$ 2,181

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Supreme Court Boards		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 3,042	$ 3,042	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	3,042	3,042	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	3,092	3,005	$ (87)
Interest on investments		115	115
Federal			
Departmental services		239	239
Other		1	1
Other financing sources - transfers in			
Total sources of financial resources	6,134	6,402	268
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial	3,318	3,165	153
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Intergovernmental revenue sharing			
Other financing uses-transfers out			
Total uses of financial resources	3,318	3,165	153
Fund balances (budgetary basis), June 30	$ 2,816	$ 3,237	$ 421

(continued on next page)

	Underground Storage Tanks			Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
S	6,479	S 6,479		S 30,920	$ 30,920	
	6,479	6,479		30,920	30,920	
	18,100	18,061	$ (39)			
	3,878	5,267	1,389	26,419	42,492	S 16,073
		452	452		1,795	1,795
	2,088	1,423	(665)			
		66	66			
	30,545	31,748	1,203	57,339	75,207	17,868
	23,751	18,655	5,096			
				26,444	25,955	489
	23,751	18,655	5,096	26,444	25,955	489
S	6,794	S 13,093	$ 6,299	S 30,895	$ 49,252	$ 18,357

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Driver Education		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 1,116	$ 1,116	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	1,116	1,116	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	445	614	$ 169
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	1,561	1,730	169
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety	768	359	409
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Intergovernmental revenue sharing			
Other financing uses-transfers out			
Total uses of financial resources	768	359	409
Fund balances (budgetary basis), June 30	$ 793	$ 1,371	$ 578

(continued on next page)

	Abandoned Land Program			Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
S	876	S 876		S 2,216	S 2,216	
	876	876		2,216	2,216	
				3,375	3,375	
	500	13	$ (487)			
		37	37		114	$ 114
		25	25			
	1,376	951	(425)	5,591	5,705	114
				3,378	3,378	
	500	100	400			
	500	100	400	3,378	3,378	
S	876	S 851	S (25)	S 2,213	S 2,327	S 114

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Regulatory Boards		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 3,715	$ 3,715	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	3,715	3,715	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	366	313	$ (53)
Interest on investments		158	158
Federal			
Departmental services		12	12
Other			
Other financing sources - transfers in			
Total sources of financial resources	4,081	4,198	117
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance	366	179	187
Transportation			
Intergovernmental revenue sharing			
Other financing uses-transfers out			
Total uses of financial resources	366	179	187
Fund balances (budgetary basis), June 30	$ 3,715	$ 4,019	$ 304

(continued on next page)

Salvage Title Enforcement			Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
S 193	S 193		S 4,699	S 4,699	
193	193		4,699	4,699	
848	1,538	$ 690	2,475	986	S (1,489)
				207	207
				5	5
1,041	1,731	690	7,174	5,897	(1,277)
848	648	200			
			2,475	1,907	568
848	648	200	2,475	1,907	568
S 193	S 1,083	S 890	S 4,699	S 3,990	S (709)

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 3,864	$ 3,864	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	3,864	3,864	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	2,354	2,804	$ 450
Interest on investments	120	172	52
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	6,338	6,840	502
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture	3,257	3,257	
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Intergovernmental revenue sharing			
Other financing uses-transfers out			
Total uses of financial resources	3,257	3,257	
Fund balances (budgetary basis), June 30	$ 3,081	$ 3,583	$ 502

(continued on next page)

	Tennessee Regulatory Authority			Small and Minority Owned Business Assistance		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
S	5,464	S 5,464		S 11,326	$ 11,326	
	5,464	5,464		11,326	11,326	
	7,600	5,970	S (1,630)			
				80	469	S 389
	350	330	(20)			
	3	(21)	(24)			
	13,417	11,743	(1,674)	11,406	11,795	389
				80		80
	7,949	7,636	313			
	7,949	7,636	313	80		80
S	5,468	S 4,107	S (1,361)	S 11,326	S 11,795	S 469

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2006

	Sex Offender Treatment Program		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 115	$ 115	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	115	115	
Revenues:			
Taxes	128	96	$ (32)
Licenses, fines, fees, and permits			
Interest on investments			
Federal			
Departmental services		49	49
Other			
Other financing sources - transfers in	50	50	
Total sources of financial resources	293	310	17
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction	153	147	6
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Intergovernmental revenue sharing			
Other financing uses-transfers out			
Total uses of financial resources	153	147	6
Fund balances (budgetary basis), June 30	$ 140	$ 163	$ 23

Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 184,774	$ 184,774	
138	138	
294,931	294,931	
479,843	479,843	
798,105	833,551	$ 35,446
352,184	360,864	8,680
706	10,499	9,793
3,084,724	801,668	(2,283,056)
77,175	50,521	(26,654)
5,282	7,627	2,345
94,505	94,505	
4,892,524	2,639,078	(2,253,446)
3,318	3,165	153
28,470	12,216	16,254
13,356	11,460	1,896
7,949	7,636	313
153	147	6
1,616	1,007	609
6,635	6,635	
101,863	83,725	18,138
82,835	71,403	11,432
9,506	3,140	6,366
26,810	26,134	676
4,153,143	1,841,390	2,311,753
286,700	290,509	(3,809)
67,102	67,102	
4,789,456	2,425,669	2,363,787
$ 103,068	$ 213,409	$ 110,341

DEBT SERVICE FUND

The Debt Service Fund is maintained to account for accumulation of resources for and the payment of principal and interest on general long-term debt.

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 6,370	$ 6,370	
Revenues:			
Taxes	274,300	275,439	$ 1,139
Licenses, fines, fees, and permits	2,700	2,626	(74)
Other		1,100	1,100
Other financing sources			
Transfers in	4,112	4,112	
Bond premium	2,485	2,485	
Total sources of financial resources	289,967	292,132	2,165
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	284,961	133,033	151,928
Other financing uses - transfers out	153,722	153,722	
Total uses of financial resources	438,683	286,755	151,928
Fund balances (budgetary basis), June 30	$ (148,716)	$ 5,377	$ 154,093

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PERMANENT FUNDS

Chairs of Excellence Fund This fund was created by the General Assembly in 1986. Its purpose is to endow faculty chairs at the Tennessee Board of Regents and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

Academic Scholars Fund This fund is used to account for the academic scholars program administered by Tennessee Student Assistance Corporation. An endowment was established in 1986 to provide scholarships to superior students from the interest earnings.

Other This column includes various smaller funds in which legal restrictions require that the principal remain intact and only the earnings may be spent.

State of Tennessee
Combining Balance Sheet
Permanent Funds
June 30, 2006

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Assets				
Cash and cash equivalents	$ 8,879	$ 7	$ 31,374	$ 40,260
Investments	221,033	3,184		224,217
Receivables:				
Taxes			18	18
Interest	1,817			1,817
Other			2	2
Due from component units	636			636
Total assets	$ 232,365	$ 3,191	$ 31,394	$ 266,950
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	$ 4,282			$ 4,282
Due to component units	1,923			1,923
Total liabilities	6,205			6,205
Fund balances:				
Reserved for:				
Expendable	126,230	$ 486	$ 1,499	128,215
Nonexpendable	99,930	2,705	29,895	132,530
Total fund balances	226,160	3,191	31,394	260,745
Total liabilities and fund balances	$ 232,365	$ 3,191	$ 31,394	$ 266,950

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Revenues				
Licenses, fines, fees and permits			$ 1,951	$ 1,951
Interest on investments	$ 12,428	$ 43	1,224	13,695
Other	97	2	30	129
Total revenues	12,525	45	3,205	15,775
Expenditures				
Education	6,872	480		7,352
Recreation and resources development			531	531
Total expenditures	6,872	480	531	7,883
Excess (deficiency) of revenues over (under) expenditures	5,653	(435)	2,674	7,892
Other financing sources (uses)				
Transfers in		402		402
Total other financing sources (uses)		402		402
Net change in fund balances	5,653	(33)	2,674	8,294
Fund balances, July 1	220,507	3,224	28,720	252,451
Fund balances, June 30	$ 226,160	$ 3,191	$ 31,394	$ 260,745

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NONMAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for the operations of state agencies that provide goods or services to the general public on a user charge basis. The state's nonmajor enterprise operations are described below.

State Loan Program Operated since the early 1970's through the Department of Environment and Conservation, this program has provided financial assistance to local governments and utility districts for the construction of sewage treatment, solid waste recovery and waterworks facilities. In order for these borrowing entities to generate funds necessary to repay the loans, the imposition of a user's fee by the local systems was authorized. In order to finance this program, general obligation bonds were sold which, although remaining full faith and credit obligations of the state, are being retired from resources of this fund. Future financing for this program will be generated from the sale of revenue bonds or notes by the Local Development Authority.

Energy Loan Program Created in 1988, this program makes loans to small businesses and local governments to improve energy efficiency.

Teacher Group Insurance Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered state employees.

Local Government Group Insurance Established in July 1991, this fund is used to account for revenues received and claims paid on behalf of employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on the behalf of state and local governments. This plan is similar to the plan offered to state employees.

Drinking Water Loan Created in 1998, this fund provides loans to local governments and utility districts for the improvement of drinking water systems. The initial sources of the monies are federal grants and state appropriations.

Grain Indemnity This program is administered by the Department of Agriculture. Revenues are collected from fees on grain sold by producers. These revenues are to be used to protect commodity producers in the event of the financial failure of a commodity dealer or warehouseman.

Property Utilization This agency, a division of the Department of General Services, receives surplus federal property and redistributes it to civil defense units, health and educational institutions and other eligible donees within the state. The agency collects fees from the donees to offset operating costs. In addition, this agency handles surplus property by the various State agencies.

Medicare Supplement Insurance Established in January 2001, this fund is used to account for revenues received and claims paid on behalf of retirees who are eligible for medicare coverage and elect coverage under the Medicare Supplement Insurance Plan.

Client Protection Created by the Tennessee Supreme Court, this fund provides services to protect clients from dishonest conduct by attorneys. Revenue is mainly generated through annual registration fees for attorneys.

State of Tennessee
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2006

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Assets				
Current assets:				
Cash and cash equivalents	$ 2,722	$ 21,698	$ 115,291	$ 19,029
Receivables:				
Accounts receivable			1,714	578
Interest				
Loans receivable	789	1,433		
Due from component units				1
Inventory				
Total current assets	3,511	23,131	117,005	19,608
Noncurrent assets:				
Deferred charges	38			
Loans receivable	2,920	5,005		
Capital assets:				
Machinery and equipment, at cost				
Less-accumulated depreciation				
Total capital assets, net of accumulated depreciation				
Total noncurrent assets	2,958	5,005		
Total assets	$ 6,469	$ 28,136	$ 117,005	$ 19,608
Liabilities				
Current liabilities:				
Accounts payable and accruals	$ 318	$ 65	$ 27,369	$ 6,835
Due to other funds				
Bonds payable	835			
Unearned revenue			1,849	249
Total current liabilities	1,153	65	29,218	7,084
Noncurrent liabilities:				
Bonds payable, net	2,543			
Other noncurrent liabilities				
Total noncurrent liabilities	2,543			
Total liabilities	3,696	65	29,218	7,084
Net assets				
Unrestricted	2,773	28,071	87,787	12,524
Total net assets	$ 2,773	$ 28,071	$ 87,787	$ 12,524

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
$ 20,023	$ 3,463	$ 362	$ 24,964	$ 2,163	$ 209,715
		106	344		2,742
2					2
2,243					4,465
					1
		41			41
22,268	3,463	509	25,308	2,163	216,966
					38
51,550					59,475
		16			16
		(16)			(16)
		-			-
51,550		-			59,513
$ 73,818	$ 3,463	$ 509	$ 25,308	$ 2,163	$ 276,479
$ 38		$ 86	$ 4,792		$ 39,503
		6			6
					835
			1,872		3,970
38		92	6,664		44,314
					2,543
1,118		42			1,160
1,118		42			3,703
1,156		134	6,664		48,017
72,662	3,463	375	18,644	2,163	228,462
$ 72,662	$ 3,463	$ 375	$ 18,644	$ 2,163	$ 228,462

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Operating revenues				
Charges for services	$ 124	$ 135		
Investment income	131	902		
Premiums			$ 356,033	$ 96,111
Total operating revenues	255	1,037	356,033	96,111
Operating expenses				
Personal services				
Contractual services	34		20,258	4,605
Materials and supplies				
Rentals and insurance				
Interest	211			
Depreciation and amortization	11			
Benefits			319,333	88,026
Other	43		1,326	432
Total operating expenses	299		340,917	93,063
Operating income (loss)	(44)	1,037	15,116	3,048
Nonoperating revenues (expenses)				
Operating grants	(25)	277		
Interest income			3,929	803
Total nonoperating revenues (expenses)	(25)	277	3,929	803
Income (loss) before transfers	(69)	1,314	19,045	3,851
Transfers in			11,943	
Change in net assets	(69)	1,314	30,988	3,851
Net assets, July 1	2,842	26,757	56,799	8,673
Net assets, June 30	$ 2,773	$ 28,071	$ 87,787	$ 12,524

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
$ 1,078		$ 2,623		$ 180	$ 4,140
730					1,763
			$ 27,371		479,515
1,808		2,623	27,371	180	485,418
		842			842
448		611	5,182	51	31,189
		750			750
		170			170
					211
					11
			31,376		438,735
	$ 156	67	338	5	2,367
448	156	2,440	36,896	56	474,275
1,360	(156)	183	(9,525)	124	11,143
8,319					8,571
	142		1,045	83	6,002
8,319	142		1,045	83	14,573
9,679	(14)	183	(8,480)	207	25,716
1,736			5,892		19,571
11,415	(14)	183	(2,588)	207	45,287
61,247	3,477	192	21,232	1,956	183,175
$ 72,662	$ 3,463	$ 375	$ 18,644	$ 2,163	$ 228,462

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Cash flows from operating activities				
Receipts from customers and users			$ 357,053	$ 96,302
Receipts from interfund services provided				
Payments to suppliers			(335,987)	(93,124)
Payments to employees				
Payments for interfund services used	$ (34)		(1,326)	(432)
Net cash from (used for) operating activities	(34)		19,740	2,746
Cash flows from noncapital financing activities				
Operating grants received		$ 277		
Transfers in			11,943	
Payments to component units	(25)			
Principal payments	(1,845)			
Interest paid	(251)			
Subsidy to borrowers	(132)			
Net cash from (used for) noncapital financing activities	(2,253)	277	11,943	
Cash flows from investing activities				
Loans issued		(2,485)		
Collection of loan principal	1,700	1,606		
Interest received	255	1,037	3,929	803
Net cash from (used for) investing activities	1,955	158	3,929	803
Net increase (decrease) in cash and cash equivalents	(332)	435	35,612	3,549
Cash and cash equivalents, July	3,054	21,263	79,679	15,480
Prior year reclassification				
Cash and cash equivalents, June 30	$ 2,722	$ 21,698	$ 115,291	$ 19,029
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ (44)	$ 1,037	$ 15,116	$ 3,048
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	11			
Investment income	(131)	(902)		
Charges for services	(124)	(135)		
Interest expense	211			
Subsidy to borrowers	43			
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			(914)	(332)
(Increase) decrease in due from component units				9
(Increase) decrease in inventories				
Increase (decrease) in accounts payable			5,243	(30)
Increase (decrease) in unearned revenue			295	51
Total adjustments	10	(1,037)	4,624	(302)
Net cash provided by (used for) operating activities	$ (34)	$ -	$ 19,740	$ 2,746

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
		$ 2,301	$ 28,258	$ 180	$ 484,094
		277			277
$ (52)	$ (156)	(1,183)	(37,538)	(51)	(468,091)
		(861)		(5)	(866)
(396)		(498)	(338)		(3,024)
(448)	(156)	36	(9,618)	124	12,390
8,319					8,596
1,736			5,892		19,571
					(25)
					(1,845)
					(251)
					(132)
10,055			5,892		25,914
(9,849)					(12,334)
2,084					5,390
1,807	142		1,045	83	9,101
(5,958)	142		1,045	83	2,157
3,649	(14)	36	(2,681)	207	40,461
15,620	3,477	326	27,645	1,956	168,500
754					754
$ 20,023	$ 3,463	$ 362	$ 24,964	$ 2,163	$ 209,715
$ 1,360	$ (156)	$ 183	$ (9,525)	$ 124	$ 11,143
					11
(1,078)					(2,111)
(730)					(989)
					211
					43
		(46)	(97)		(1,389)
		1			10
		(41)			(41)
		(61)	(980)		4,172
			984		1,330
(1,808)		(147)	(93)		1,247
$ (448)	$ (156)	$ 36	$ (9,618)	$ 124	$ 12,390

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:

Office for Information Resources a division of the Department of Finance and Administration, functions as the data and voice service bureau for state government.

Risk Management administered by the Treasury Department, this fund is used to pay awards for claims made against the state and for damage to state owned property.

Motor Vehicle Management a division of the Department of General Services, is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing a division of the Department of General Services, operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund Created in 1989, this fund provides the maintenance, repair and total housing needs of state government. This fund was phased in. The first year it included only downtown Nashville office space. In fiscal year 90-91, the fund expanded to include all office and warehouse space in Davidson, Knox, Madison, Shelby, Washington, Hamilton, and Sullivan counties. In fiscal year 91-92, the fund encompassed all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. Prior to 1978, medical insurance was provided by a private carrier. Group life and accident insurance premiums paid to a private insurance company are also recorded in this fund.

Food Services a division of the Department of General Services, is responsible for the preparation and distribution of certain food to the various state institutions. This consists of food that is cooked and then immediately frozen and is then reheated at the institution.

Postal Services a division of the Department of General Services, is responsible for processing and distributing incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

Capitol Print Shop a division of the Office of the Comptroller, is responsible for providing printing, mailing and other office services for the state agencies located in the Capitol.

Purchasing a division of the Department of General Services, is responsible for the procurement of supplies, equipment and certain specialized services.

Central Stores a division of the Department of General Services, is responsible for the purchasing and distribution of office supplies to all state government and quasi-governmental entities that opt to use this service.

Records Management a division of the Department of General Services, is responsible for the retention and disposal of official records.

Division of Accounts a division of the Department of Finance and Administration, is responsible for the centralized accounting function for the state.

TRICOR (Tennessee Rehabilitative Initiative in Correction) Manages correctional industry, agriculture, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not-for profit organizations.

State of Tennessee
Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

(Expressed in Thousands)

Assets	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Current assets:						
Cash and cash equivalents	$ 100,951	$ 133,255	$ 14,273	$ 48	$ 38,823	$ 216,105
Accounts receivable	316		189	3	255	2,951
Due from other funds	2,229					
Due from component units	329		5	1	17	
Inventories, at cost	1,162		9	82		
Prepaid expenses						
Total current assets	104,987	133,255	14,476	134	39,095	219,056
Noncurrent assets:						
Due from other funds	1,182					
Deferred charges					396	
Lease receivable					2,819	
Capital assets:						
Land, at cost					54,712	
Structures and improvements, at cost					444,939	
Machinery and equipment, at cost	87,551		147,071	1,395	360	
Less-accumulated depreciation	(67,608)		(74,666)	(1,016)	(190,778)	
Construction in progress					6,053	
Total capital assets, net of accumulated depreciation	19,943		72,405	379	315,286	
Total noncurrent assets	21,125		72,405	379	318,501	
Total assets	$ 126,112	$ 133,255	$ 86,881	$ 513	$ 357,596	$ 219,056
Liabilities						
Current liabilities:						
Accounts payable and accruals:						
Accounts payable	$ 12,178	$ 530	$ 2,916	$ 58	$ 6,343	$ 47,448
Accrued payroll and related deductions	2,270		99	127		
Due to other funds	275	6	12	13		
Lease obligations payable				73	256	
Bonds payable					13,678	
Unearned revenue		6	2,292	8		36,254
Other		28,216				
Total current liabilities	14,723	28,758	5,319	279	20,277	83,702
Noncurrent liabilities:						
Lease obligations payable				149	2,762	
Commercial paper payable			12,321		10,578	
Bonds payable, net					138,151	
Other noncurrent liabilities	1,322	55,250	75	84		
Total noncurrent liabilities	1,322	55,250	12,396	233	151,491	
Total liabilities	16,045	84,008	17,715	512	171,768	83,702
Net assets						
Invested in capital assets, net of related debt	19,943		60,084	157	149,861	
Unrestricted (deficit)	90,124	49,247	9,082	(156)	35,967	135,354
Total net assets	$ 110,067	$ 49,247	$ 69,166	$ 1	$ 185,828	$ 135,354

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
$ 1,290		$ 240	$ 159		$ 153	$ 4,153	$ 7,631	$ 517,081
	$ 220					1	340	4,275
							1	2,230
				$ 2			39	393
	270	17		665			6,735	8,940
	260	21				5		286
1,290	750	278	159	667	153	4,159	14,746	533,205
								1,182
								396
								2,819
215								54,927
15,752								460,691
3,343	2,169	737		7	208	45	8,260	251,146
(6,781)	(1,870)	(705)		(7)	(183)	(44)	(4,089)	(347,747)
								6,053
12,529	299	32		-	25	1	4,171	425,070
12,529	299	32			25	1	4,171	429,467
$ 13,819	$ 1,049	$ 310	$ 159	$ 667	$ 178	$ 4,160	$ 18,917	$ 962,672
$ 673	$ 9	$ 13	$ 9	$ 184	$ 15	$ 31	$ 2,237	$ 72,644
18	112	22	116	36	45	303	610	3,758
2	376		15	415	6	35	64	1,219
					10			339
								13,678
								38,560
								28,216
693	497	35	140	635	76	369	2,911	158,414
					17			2,928
								22,899
								138,151
13	67	22	68	15	25	186	426	57,553
13	67	22	68	15	42	186	426	221,531
706	564	57	208	650	118	555	3,337	379,945
12,529	299	32			(2)	1	4,171	247,075
584	186	221	(49)	17	62	3,604	11,409	335,652
$ 13,113	$ 485	$ 253	$ (49)	$ 17	$ 60	$ 3,605	$ 15,580	$ 582,727

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Operating revenues						
Charges for services	$ 136,538	$ 53,542	$ 34,633	$ 3,553	$ 113,982	
Premiums						$ 644,384
Other			1,663	6		
Total operating revenues	136,538	53,542	36,296	3,559	113,982	644,384
Operating expenses						
Personal services	33,384		1,308	1,765		
Contractual services	91,351	8,549	1,662	750	65,729	33,437
Materials and supplies	21,856		18,647	849	4,537	
Rentals and insurance	2,079	1,986	343	346	32,392	9,093
Depreciation and amortization	8,651		13,792	118	10,654	
Benefits		20,541				573,263
Other	848		7	16	120	2,896
Total operating expenses	158,169	31,076	35,759	3,844	113,432	618,689
Operating income (loss)	(21,631)	22,466	537	(285)	550	25,695
Nonoperating revenues (expenses)						
Taxes		3				
Insurance proceeds					1,812	
Interest income		4,758			1,581	7,940
Interest expense			(469)	(15)	(7,352)	
Total nonoperating revenues (expenses)		4,761	(469)	(15)	(3,959)	7,940
Income (loss) before contributions and transfers	(21,631)	27,227	68	(300)	(3,409)	33,635
Capital contributions					28	
Transfers in	36,109		6,108	250	8,223	570
Change in net assets	14,478	27,227	6,176	(50)	4,842	34,205
Net assets, July 1	95,589	22,020	62,990	51	180,986	101,149
Net assets, June 30	$ 110,067	$ 49,247	$ 69,166	$ 1	$ 185,828	$ 135,354

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
$ 4,893	$ 16,812	$ 773	$ 3,960	$ 8,532	$ 1,210	$ 11,222	$ 33,031	$ 422,681
								644,384
							9	1,678
4,893	16,812	773	3,960	8,532	1,210	11,222	33,040	1,068,743
199	1,879	507	1,755	862	726	4,434	8,772	55,591
4,700	1,164	306	1,918	1,055	215	6,176	4,204	221,216
2	13,001	97	239	6,352	5	38	16,099	81,722
24	633	26	217	251	260	263	772	48,685
616	31	21	3		9	7	609	34,511
								593,804
1	40		47	28	10	19	987	5,019
5,542	16,748	957	4,179	8,548	1,225	10,937	31,443	1,040,548
(649)	64	(184)	(219)	(16)	(15)	285	1,597	28,195
								3
								1,812
								14,279
					(2)			(7,838)
					(2)			8,256
(649)	64	(184)	(219)	(16)	(17)	285	1,597	36,451
								28
		200	22					51,482
(649)	64	16	(197)	(16)	(17)	285	1,597	87,961
13,762	421	237	148	33	77	3,320	13,983	494,766
$ 13,113	$ 485	$ 253	$ (49)	$ 17	$ 60	$ 3,605	$ 15,580	$ 582,727

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Cash flows from operating activities						
Receipts from customers and users	$ 5,656	$ 14,240	$ 385	$ 44	$ 2,178	$ 249,327
Receipts from interfund services provided	130,881	39,302	34,737	3,507	111,928	412,772
Payments to suppliers	(100,401)	(33,347)	(16,446)	(1,261)	(80,367)	(626,201)
Payments to employees	(33,327)		(1,304)	(1,757)		
Payments for interfund services used	(15,412)	(6,090)	(5,934)	(707)	(21,143)	(2,897)
Net cash from (used for) operating activities	(12,603)	14,105	11,438	(174)	12,596	33,001
Cash flows from noncapital financing activities						
Negative cash balance implicitly financed						
Negative cash balance implicitly repaid						
Transfers in	36,109		6,108	250	8,223	570
Tax revenues received		3				
Net cash from (used for) noncapital financing activities	36,109	3	6,108	250	8,223	570
Cash flows from capital and related financing activities						
Purchase of capital assets	(7,080)		(16,772)	(65)	(9,512)	
Bond and commercial paper proceeds			2,592		48,998	
Proceeds from sale of capital assets			3,437		252	
Bond issuance cost					(89)	
Principal payments			(6,320)	(69)	(50,033)	
Interest paid			(469)	(15)	(6,767)	
Insurance proceeds					1,812	
Net cash from (used for) capital and related financing activities	(7,080)		(17,532)	(149)	(15,339)	
Cash flows from investing activities						
Interest received		4,758			1,580	7,940
Net cash from (used for) investing activities		4,758			1,580	7,940
Net increase (decrease) in cash and cash equivalents	16,426	18,866	14	(73)	7,060	41,511
Cash and cash equivalents, July 1	84,525	114,389	14,259	121	31,763	174,594
Cash and cash equivalents, June 30	$ 100,951	$ 133,255	$ 14,273	$ 48	$ 38,823	$ 216,105
Reconciliation of operating income to net cash provided (used) by operating activities						
Operating income (loss)	$ (21,631)	$ 22,466	$ 537	$ (285)	$ 550	$ 25,695
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	8,651		13,792	118	10,654	
Loss on disposal of capital assets	636		(1,679)	(6)		
Bond issuance cost					104	
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	584		25	(2)	4	(1,663)
(Increase) decrease in due from other funds	(627)				119	
(Increase) decrease in due from component units	41		(1)	(1)	1	
(Increase) decrease in inventories	387		(2)	(9)		
(Increase) decrease in prepaid expenses						
Increase (decrease) in accounts payable	(651)	(8,362)	(1,700)	10	1,164	6,874
Increase (decrease) in due to other funds	7	1	2	1		
Increase (decrease) in unearned revenue			464			2,095
Total adjustments	9,028	(8,361)	10,901	111	12,046	7,306
Net cash provided by (used for) operating activities	$ (12,603)	$ 14,105	$ 11,438	$ (174)	$ 12,596	$ 33,001
Noncash investing, capital and financing activities						
Contributed capital assets					$ 28	
Capital asset acquired by capital lease					2,734	
Total noncash investing, capital and financing activities					$ 2,762	

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
$ 590	$ 125	$ 5	$ 15	$ 29	$ 21	$ 347	$ 4,945	$ 277,907
4,303	16,468	768	3,945	8,501	1,189	10,874	28,206	807,381
(4,368)	(13,844)	(398)	(414)	(6,674)	(52)	(944)	(21,291)	(906,008)
(197)	(1,903)	(512)	(1,772)	(891)	(719)	(4,398)	(8,983)	(55,763)
(225)	(1,144)	(32)	(1,958)	(773)	(420)	(5,514)	(1,576)	(63,825)
103	(298)	(169)	(184)	192	19	365	1,301	59,692
	363							363
				(192)				(192)
		200	22					51,482
								3
	363	200	22	(192)				51,656
	(304)						(1,400)	(35,133)
								51,590
								3,689
								(89)
					(9)			(56,431)
					(2)			(7,253)
								1,812
	(304)				(11)		(1,400)	(41,815)
								14,278
								14,278
103	(239)	31	(162)		8	365	(99)	83,811
1,187	239	209	321	-	145	3,788	7,730	433,270
$ 1,290	$ -	$ 240	$ 159	$ -	$ 153	$ 4,153	$ 7,631	$ 517,081
$ (649)	$ 64	$ (184)	$ (219)	$ (16)	$ (15)	$ 285	$ 1,597	$ 28,195
616	31	21	3		9	7	609	34,511
			12				(9)	(1,046)
								104
	(219)						106	(1,165)
								(508)
				(1)			13	52
	(61)	6		364			(1,830)	(1,145)
	(95)	(10)				(5)		(110)
136	(17)	(2)	19	(154)	24	78	814	(1,767)
	(1)		1	(1)	1		1	12
								2,559
752	(362)	15	35	208	34	80	(296)	31,497
$ 103	$ (298)	$ (169)	$ (184)	$ 192	$ 19	$ 365	$ 1,301	$ 59,692
								$ 28
								2,734
								$ 2,762

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FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity.

Pension and Other Employee Benefit Trust:

Pension Trust Fund—The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2005. As of that date there were 204,735 active members and 87,772 retired members representing a 2.9% and 5.6% increase, respectively, since the previous actuarial valuation in 2003.

Employee Flexible Benefits Established in January 1988, this fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan.

Private-Purpose Trust Funds:

Baccalaureate Education This trust was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. These units entitle the beneficiary to the payment of qualified tuition, room and board, fees, costs of books, supplies and equipment required for the enrollment or attendance at any accredited public or private, in-state or out-of-state institution.

Children in State Custody This fund accounts for monies held and used for the benefit of children in the custody of the state. Monies held are from various sources including the Social Security Administration.

Oak Ridge Monitoring—Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2014 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

Duck River Water Supply This fund accounts for monies received from the Tennessee Valley Authority to be held for the various Duck River utility districts.

Other These funds account for trust arrangements under which the principal and income benefit individuals or private organizations.

Agency Funds:

Local Government Fund The purpose of the Local Government Fund is to serve as a clearing mechanism for state-shared taxes and other funds distributed to the various counties and cities of the state.

Contingent Revenue Fund—This fund is used to account for refundable deposits and other receipts held in trust until the state has the right to transfer them to operating funds or until there is proper authorization to disburse them directly to others.

State of Tennessee
Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2006

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	$ 700,553	$ 126,058	$ 826,611	$ 558	$ 827,169
Receivables:					
Member contributions	18,553	4,800	23,353		23,353
Employer contributions	19,702	16,388	36,090		36,090
Accrued interest	127,526	22,947	150,473		150,473
Accrued dividends	17,536	3,156	20,692		20,692
Foreign currency	16,724	3,009	19,733		19,733
Real estate income	1,166	210	1,376		1,376
Investments sold	28,212	5,076	33,288		33,288
Total receivables	229,419	55,586	285,005		285,005
Due from other funds	6,244		6,244	224	6,468
Due from component units	5,985		5,985	5	5,990
Investments, at fair value:					
Short term securities	427,010	76,837	503,847		503,847
Government bonds	9,072,529	1,632,519	10,705,048		10,705,048
Corporate bonds	2,652,679	477,326	3,130,005		3,130,005
Corporate stocks	10,580,082	1,903,790	12,483,872		12,483,872
Real estate	794,090	142,890	936,980		936,980
Total investments	23,526,390	4,233,362	27,759,752		27,759,752
Total assets	$ 24,468,591	$ 4,415,006	$ 28,883,597	$ 787	$ 28,884,384
Liabilities					
Accounts payable and accruals	$ 36,402	$ 6,828	$ 43,230	$ 129	$ 43,359
Foreign currency payable	16,723	3,009	19,732		19,732
Total liabilities	53,125	9,837	62,962	129	63,091
Net assets					
Held in trust for:					
Pension benefits	24,415,466	4,405,169	28,820,635		28,820,635
Employees' flexible benefits				658	658
Total net assets	$ 24,415,466	$ 4,405,169	$ 28,820,635	$ 658	$ 28,821,293

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Additions					
Contributions:					
Members	$ 166,984	$ 59,327	$ 226,311	$ 7,113	$ 233,424
Employers	474,879		474,879		474,879
Political subdivisions		191,000	191,000		191,000
Total contributions	641,863	250,327	892,190	7,113	899,303
Investment income:					
Net increase in fair value of investments	758,789	134,741	893,530		893,530
Interest	594,856	105,627	700,483		700,483
Dividends	223,813	39,742	263,555		263,555
Real estate income	32,854	5,833	38,687		38,687
Total investment income	1,610,312	285,943	1,896,255		1,896,255
Less: Investment expenses	16,098	2,859	18,957		18,957
Net investment income	1,594,214	283,084	1,877,298		1,877,298
Total additions	2,236,077	533,411	2,769,488	7,113	2,776,601
Deductions					
Annuity benefits:					
Retirement benefits	794,829	128,155	922,984		922,984
Cost of living	173,624	21,915	195,539		195,539
Death benefits	4,227	1,441	5,668		5,668
Other benefits				7,054	7,054
Refunds	17,751	16,960	34,711		34,711
Administrative expenses	3,336	2,877	6,213		6,213
Total deductions	993,767	171,348	1,165,115	7,054	1,172,169
Change in net assets held in trust for:					
Pension benefits	1,242,310	362,063	1,604,373		1,604,373
Employees' flexible benefits				59	59
Net assets, July 1	23,173,156	4,043,106	27,216,262	599	27,216,861
Net assets, June 30	$ 24,415,466	$ 4,405,169	$ 28,820,635	$ 658	$ 28,821,293

State of Tennessee
Combining Statement of Fiduciary Net Assets
Private-Purpose Trust Funds
June 30, 2006

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Duck River Water Supply	Other	Total Private-Purpose Trust Funds
Assets						
Cash and cash equivalents	$ 6,368	$ 5,333	$ 6,528	$ 10,294	$ 1,387	$ 29,910
Receivables:						
Taxes					42	42
Interest and dividends	24					24
Total receivables	24				42	66
Due from other funds	9					9
Investments, at fair value:						
Mutual funds	54,388					54,388
Total investments	54,388					54,388
Total assets	$ 60,789	$ 5,333	$ 6,528	$ 10,294	$ 1,429	$ 84,373
Liabilities						
Accounts payable and accruals	$ 5	$ 55				$ 60
Total liabilities	5	55				60
Net assets						
Held in trust for:						
Individuals, organizations and other governments	$ 60,784	$ 5,278	$ 6,528	$ 10,294	$ 1,429	$ 84,313

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Duck River Water Supply	Other	Total Private-Purpose Trust Funds
Additions						
Contributions:						
Federal		$ 7,525	$ 1,000			$ 8,525
Private	$ 6,527				$ 504	7,031
Other		2,759			151	2,910
Total contributions	6,527	10,284	1,000		655	18,466
Investment income:						
Net (decrease) in fair value of investments	(1,601)					(1,601)
Interest	2,748	757	251	$ 409	50	4,215
Total investment income	1,147	757	251	409	50	2,614
Total additions	7,674	11,041	1,251	409	705	21,080
Deductions						
Payments made under trust agreements	3,558	22,055			549	26,162
Refunds	503	2,655				3,158
Administrative expenses	320					320
Total deductions	4,381	24,710			549	29,640
Change in net assets held in trust for: Individuals, organizations and other governments	3,293	(13,669)	1,251	409	156	(8,560)
Net assets, July 1	57,491	18,947	5,277	9,885	1,273	92,873
Net assets, June 30	$ 60,784	$ 5,278	$ 6,528	$ 10,294	$ 1,429	$ 84,313

State of Tennessee
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006

(Expressed in Thousands)

	Local Government	Contingent Revenue	Total Agency Funds
Assets			
Cash and cash equivalents	$ 255,611	$ 94,244	$ 349,855
Receivables:			
Taxes	317,149		317,149
Due from other funds		9,257	9,257
Due from component units		60	60
Total assets	$ 572,760	$ 103,561	$ 676,321
Liabilities			
Accounts payable and accruals	$ 572,760	$ 20,749	$ 593,509
Amounts held in custody for others		82,812	82,812
Total liabilities	$ 572,760	$ 103,561	$ 676,321

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

Local Government Fund	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets				
Cash and cash equivalents	$ 226,051	$ 3,195,649	$ 3,166,089	$ 255,611
Accounts receivable	282,929	353,845	319,625	317,149
Total assets	$ 508,980	$ 3,549,494	$ 3,485,714	$ 572,760
Liabilities				
Accounts payable and accruals	$ 508,980	$ 2,803,775	$ 2,739,995	$ 572,760
Total liabilities	$ 508,980	$ 2,803,775	$ 2,739,995	$ 572,760
Contingent Revenue Fund				
Assets				
Cash and cash equivalents	$ 82,211	$ 1,361,793	$ 1,349,760	$ 94,244
Due from other funds	8,714	9,368	8,825	9,257
Due from component units	52	60	52	60
Total assets	$ 90,977	$ 1,371,221	$ 1,358,637	$ 103,561
Liabilities				
Accounts payable and accruals	$ 19,479	$ 338,473	$ 337,203	$ 20,749
Amount held in custody for others	71,498	743,632	732,318	82,812
Total liabilities	$ 90,977	$ 1,082,105	$ 1,069,521	$ 103,561
Totals- All Agency Funds				
Assets				
Cash and cash equivalents	$ 308,262	$ 4,557,442	$ 4,515,849	$ 349,855
Accounts receivable	282,929	353,845	319,625	317,149
Due from other funds	8,714	9,368	8,825	9,257
Due from component units	52	60	52	60
Total assets	$ 599,957	$ 4,920,715	$ 4,844,351	$ 676,321
Liabilities				
Accounts payable and accruals	$ 528,459	$ 3,142,248	$ 3,077,198	$ 593,509
Amount held in custody for others	71,498	743,632	732,318	82,812
Total liabilities	$ 599,957	$ 3,885,880	$ 3,809,516	$ 676,321

COMPONENT UNITS

Tennessee Student Assistance Corporation This fund is used to account for the guaranteed loans program administered by Tennessee Student Assistance Corporation (TSAC).

Community Services Agencies In 1989, the Legislature created twelve Community Services Agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The State has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. The twelve Community Services Agencies (CSAs) are:

Northeast CSA
East Tennessee CSA
Upper Cumberland CSA
Southeast CSA
Mid-Cumberland CSA
South Central CSA
Northwest CSA
Southwest CSA
Davidson County CSA
Knox County CSA
Memphis and Shelby County CSA
Hamilton County CSA

Davidson, Hamilton, and Knox County CSAs have ceased operations effective the fiscal year ended June 30, 2006. Davidson County CSA has been dissolved. The boards of directors of Hamilton and Knox Counties CSAs voted to cease operations and transfer remaining fund balances to the State to be used for outstanding obligations.

Housing Development Agency Created by the legislature in 1973, the purpose of this agency is to improve the quality of housing available to lower and moderate income Tennesseans. This objective is accomplished in part by (1) making funds available for loans for residential construction or rehabilitation, (2) making or participating in the making of insured mortgage loans and (3) purchasing existing mortgages from lending institutions. These programs are funded primarily from the sale of revenue bonds or notes.

Tennessee Education Lottery Corporation Created by the General Assembly in 2003, the purpose of the corporation is to operate a state lottery with net proceeds to be given to the State to be used for educational programs and purposes in accordance with the Constitution of Tennessee.

Tennessee Board of Regents The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, thirteen community colleges, and twenty-seven technology centers) serve the state and its citizenry by providing education opportunities, research, continuing education and public activities. As a system, the institutions span the state and operate as a coordinated network of public education with each campus offering unique characteristics and services. The system consists of the following institutions:

UNIVERSITIES

Austin Peay State University	Clarksville
East Tennessee State University	Johnson City
Middle Tennessee State University	Murfreesboro
Tennessee State University	Nashville
Tennessee Technological University	Cookeville
University of Memphis	Memphis

COMMUNITY COLLEGES

Chattanooga State Technical Community College	Chattanooga
Cleveland State Community College	Cleveland
Columbia State Community College	Columbia
Dyersburg State Community College	Dyersburg
Jackson State Community College	Jackson
Motlow State Community College	Tullahoma
Nashville State Technical Community College	Nashville
Northeast State Technical Community College	Blountville
Pellissippi State Technical Community College	Knoxville
Roane State Community College	Harriman
Southwest Tennessee Community College	Memphis
Volunteer State Community College	Gallatin
Walters State Community College	Morristown

TECHNOLOGY CENTERS

Athens	McKenzie
Chattanooga	McMinnville
Covington	Memphis
Crossville	Morristown
Crump	Murfreesboro
Dickson	Nashville
Elizabethton	Newbern
Harriman	Oneida
Hartsville	Paris
Hohenwald	Pulaski
Jacksboro	Ripley
Jackson	Shelbyville
Knoxville	Whiteville
Livingston	

The purpose of the technology centers is to provide occupational and technical training for current and future employees of existing and prospective industries and businesses of this state.

The University of Tennessee Board of Trustees The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

Local Development Authority This authority was created in 1978 for the purpose of providing to local governments, through the issuing of revenue bonds or notes, the financing assistance previously provided by the State Loan Program. The Authority has also issued bonds to assist non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

Veterans' Homes Board Created in 1988, the primary purpose of the homes is to provide support and care for honorably discharged veterans of the United States Armed Forces. The revenue sources are the Veterans' Administration, Medicaid, and a user fee.

Child Care Facilities This organization was formed to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The sources of revenues are interest on loans made and grants from the federal government.

Tennessee State School Bond Authority (TSSBA) Established in 1965, the TSSBA provides a mechanism for financing building projects for the state's universities. Agreements are executed between the governing boards of the institutions and the TSSBA, and revenue bonds are issued using the constructed facilities as collateral. Charges levied on the universities provide the funds necessary for payment of principal and interest on bonds. In addition, the Authority issues Qualified Zone Academy Bonds, which are part of a federal government program to finance loans to qualifying K-12 schools in the state.

Certified Cotton Growers' Organization This organization was formed to aid in the eradication of the boll weevil. Revenues are collected from assessments on cotton growers and from state appropriations.

State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2006

(Expressed in Thousands)

	Governmental Fund Types				
	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast
Assets					
Cash and cash equivalents	$ 2,594	$ 550	$ 1,420	$ 380	$ 1,185
Cash on deposit with fiscal agent					
Investments					
Investments with fiscal agent					
Receivables, net	1,400		4	13	8
Due from primary government		338	611	333	381
Inventories, at cost					
Prepayments			2	4	2
Loans receivable	6,153				
Deferred charges and other					
Restricted assets:					
Cash and cash equivalents					
Investments					
Receivables, net					
Capital assets:					
Land, at cost					
Infrastructure					
Structures and improvements, at cost					
Machinery and equipment, at cost		42	168	66	62
Less accumulated depreciation		(24)	(158)	(52)	(48)
Construction in progress					
Total assets	$ 10,147	$ 906	$ 2,047	$ 744	$ 1,590
Liabilities					
Accounts payable and accruals	$ 2,522	$ 45	$ 297	$ 117	$ 59
Due to primary government	19	568	543	375	642
Unearned revenue	81			5	
Advance from federal government	318				
Other					
Noncurrent liabilities:					
Due within one year	72	15	32	34	22
Due in more than one year	84	8	18	7	23
Total liabilities	3,096	636	890	538	746
Net assets					
Invested in capital assets, net of related debt		18	10	14	14
Restricted for:					
Debt service					
Capital projects					
Single family bond programs					
Other					
Permanent and endowment:					
Expendable					
Nonexpendable					
Unrestricted	7,051	252	1,147	192	830
Total net assets	$ 7,051	$ 270	$ 1,157	$ 206	$ 844

(continued on next page)

Governmental Fund Types				
Mid-Cumberland	South Central	Northwest	Southwest	Memphis and Shelby County
$ 178	$ 598	$ 742	$ 1,173	$ 1,263
103		6		
478	349	391	96	655
17	1	1	4	
257	26	36	48	207
(239)	(23)	(28)	(35)	(147)
$ 794	$ 951	$ 1,148	$ 1,286	$ 1,978
$ 337	$ 12	$ 92	$ 49	$ 263
275	507	687	647	22
49	7	14	16	80
9	15	14	18	
670	541	807	730	365
4	3	7	13	60
120	407	334	543	1,553
$ 124	$ 410	$ 341	$ 556	$ 1,613

(continued from previous page)

State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2006

(Expressed in Thousands)

	Proprietary Fund Types			
	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Assets				
Cash and cash equivalents	$ 424,616	$ 57,731	$ 458,240	$ 510,598
Cash on deposit with fiscal agent				
Investments	206,619		358,576	764,797
Investments with fiscal agent				
Receivables, net	32,370	38,437	153,638	201,759
Due from primary government	1		860	1,063
Inventories, at cost			5,468	8,065
Prepayments		5,757	4,974	243
Loans receivable	1,473,605			
Deferred charges and other	11,619		1,983	6,844
Restricted assets:				
Cash and cash equivalents	174	331		
Investments	176,393	1,678		
Receivables, net	2,475			
Capital assets:				
Land, at cost			100,644	61,561
Infrastructure			160,742	64,207
Structures and improvements, at cost		307	1,486,195	1,328,605
Machinery and equipment, at cost	153	3,717	377,427	366,738
Less accumulated depreciation	(93)	(1,741)	(956,917)	(803,979)
Construction in progress			184,975	138,682
Total assets	$ 2,327,932	$ 106,217	$ 2,336,805	$ 2,649,183
Liabilities				
Accounts payable and accruals	$ 45,278	$ 23,608	$ 111,361	$ 116,525
Due to primary government	84	67,992	6,558	4,794
Unearned revenue	1,379	1,097	38,869	77,797
Advance from federal government				
Other			11,086	18,786
Noncurrent liabilities:				
Due within one year	112,779	396	25,307	54,521
Due in more than one year	1,735,061	12,793	354,264	502,264
Total liabilities	1,894,581	105,886	547,445	774,687
Net assets				
Invested in capital assets, net of related debt	60	2,283	1,046,028	750,758
Restricted for:				
Debt service			12,834	517
Capital projects			20,039	38,801
Single family bond programs	425,218			
Other	3,539	331	103,958	223,290
Permanent and endowment:				
Expendable			31,298	203,435
Nonexpendable			211,902	409,361
Unrestricted	4,534	(2,283)	363,301	248,334
Total net assets	$ 433,351	$ 331	$ 1,789,360	$ 1,874,496

Proprietary Fund Types						
Local Development Authority	Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Component Units
$ 33,113	$ 2,156	$ 78	$ 104,857	$ 1,382	$ 1,602,854
	30				1,330,022
			216		216
51	6,829		4,433	48	439,099
	597			1,945	8,098
	55				13,588
	10				11,015
73,259		25	601,095		2,154,137
534	449		6,548		27,977
4,785	1,840		11,160		18,290
1,159			10,891		190,121
					2,475
	344				162,549
	734				225,683
	10,456				2,825,563
	2,279				751,226
	(4,818)				(1,768,302)
	17,633				341,290
$ 112,901	$ 38,594	$ 103	$ 739,200	$ 3,375	$ 8,335,901
$ 2,074	$ 1,390	$ 5	$ 6,925	$ 220	$ 311,179
	6,859	1			90,573
			13,817		133,045
					318
	88	19			29,979
38,676	378	5	27,342	2,405	262,150
61,178	6,245	5	684,519	16,668	3,373,193
101,928	14,960	35	732,603	19,293	4,200,437
	20,965				1,820,237
	233				13,584
					58,840
					425,218
351	1,512				332,981
					234,733
					621,263
10,622	924	68	6,597	(15,918)	628,608
$ 10,973	$ 23,634	$ 68	$ 6,597	$ (15,918)	$ 4,135,464

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2006

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Expenses	$ 275,548	$ 939,889	$ 1,812,417	$ 1,458,880
Program revenues:				
Charges for services	100,214	931,020	635,875	436,164
Operating grants and contributions	176,034	43	460,979	623,486
Capital grants and contributions			95,748	42,863
Total program revenues	276,248	931,063	1,192,602	1,102,513
Net (expense) revenue and changes in net assets	700	(8,826)	(619,815)	(356,367)
General revenues:				
Payments from primary government			673,671	454,953
Unrestricted grants and contributions			22,071	3,675
Unrestricted investment earnings	127	1,996	24,239	16,672
Miscellaneous			5,050	
Contributions to permanent funds			11,628	42,213
Special item: Community service agency liquidation				
Total general revenues and special items	127	1,996	736,659	517,513
Change in net assets	827	(6,830)	116,844	161,146
Net assets, July 1	432,524	7,161	1,672,516	1,713,350
Net assets, June 30	$ 433,351	$ 331	$ 1,789,360	$ 1,874,496

Nonmajor Component Units	Total Component Units
$ 161,352	$ 4,648,086
65,776	2,169,049
58,086	1,318,628
14,697	153,308
138,559	3,640,985
(22,793)	(1,007,101)
43,385	1,172,009
22	25,768
289	43,323
6	5,056
	53,841
(806)	(806)
42,896	1,299,191
20,103	292,090
17,823	3,843,374
$ 37,926	$ 4,135,464

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund Type Component Units
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast	Mid-Cumberland
Revenues						
Interest on investments	$ 560	$ 20	$ 35	$ 7	$ 37	$ 18
Federal	7,932			588	93	7,224
Departmental services	49,299	2,450	5,624	1,576	3,364	3,887
Other			9	11		8
Total revenues	57,791	2,470	5,668	2,182	3,494	11,137
Expenditures						
Education	55,706					
Health and social services		2,735	6,021	2,326	3,505	11,258
Total expenditures	55,706	2,735	6,021	2,326	3,505	11,258
Excess (deficiency) of revenues over (under) expenditures	2,085	(265)	(353)	(144)	(11)	(121)
Special Item- Community Service Agency Liquidation						
Fund balances, July 1	5,122	540	1,550	377	886	285
Fund balances, June 30	$ 7,207	$ 275	$ 1,197	$ 233	$ 875	$ 164
Reconciliation to net assets:						
Fund balances per above	$ 7,207	$ 275	$ 1,197	$ 233	$ 875	$ 164
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18	10	14	14	18
Long-term liabilities are not due and payable in the current period and therefore are not reported in in the fund.	(156)	(23)	(50)	(41)	(45)	(58)
Net assets on Statement of Net Assets	$ 7,051	$ 270	$ 1,157	$ 206	$ 844	$ 124

South Central	Northwest	Southwest	Davidson County	Knox County	Memphis and Shelby County	Hamilton County	Total Governmental Fund Type Component Units
$ 20	$ 26	$ 23	$ 8	$ 16	$ 30	$ 20	$ 820
1,614	1,221	3,264		115	16,122	79	15,837 88,615
					6		34
1,634	1,247	3,287	8	131	16,158	99	105,306
1,727	1,375	3,236	12	115	15,894	65	55,706 48,269
1,727	1,375	3,236	12	115	15,894	65	103,975
(93)	(128)	51	(4)	16	264	34	1,331
			(167)	(248)		(391)	(806)
522	490	526	171	232	1,369	357	12,427
$ 429	$ 362	$ 577	$ -	$ -	$ 1,633	$ -	$ 12,952
$ 429	$ 362	$ 577			$ 1,633		$ 12,952
3	7	13			60		157
(22)	(28)	(34)			(80)		(537)
$ 410	$ 341	$ 556	$ -	$ -	$ 1,613	$ -	$ 12,572

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Operating revenues				
Charges for services	$ 100,214	$ 930,748	$ 789,515	$ 814,283
Investment income	14,024		4,750	4,307
Other		272	49,574	24,054
Total operating revenues	114,238	931,020	843,839	842,644
Operating expenses				
Personal services	10,121	11,392	1,114,287	1,026,674
Contractual services	1,766	88,596		
Mortgage service fees	5,163			
Materials and supplies	425		462,171	314,450
Rentals and insurance	1,083	1,816		
Interest	86,566			
Depreciation and amortization	544	816	71,790	73,299
Lottery prizes		537,745		
Nursing home services				
Scholarships and fellowships			143,395	24,534
Other	3,000	14,879		
Total operating expenses	108,668	655,244	1,791,643	1,438,957
Operating income (loss)	5,570	275,776	(947,804)	(596,313)
Nonoperating revenues (expenses)				
Grant income	162,137		248,613	84,242
Grant expense	(166,880)			
Interest expense			(12,899)	(17,755)
Interest income		1,996	42,442	118,241
Payments from primary government			672,698	454,953
Grants and contributions				4,326
Gifts			8,072	30,544
Payments to primary government		(284,645)		
Other		43	559	(9,626)
Total nonoperating revenues (expenses)	(4,743)	(282,606)	959,485	664,925
Income (loss) before capital grants and contributions	827	(6,830)	11,681	68,612
Capital payments from primary government			82,703	24,579
Capital grants and gifts			12,504	18,284
Additions to permanent endowments			11,628	42,213
Other			(1,672)	7,458
Change in net assets	827	(6,830)	116,844	161,146
Net assets, July 1	432,524	7,161	1,672,516	1,713,350
Net assets, June 30	$ 433,351	$ 331	$ 1,789,360	$ 1,874,496

Local Development Authority	Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Proprietary Fund Type Component Units
$ 3,251	$ 13,867	$ 6	$ 26,855	$ 6,190	$ 2,684,929
1,437		5	1,747		26,270
	14				73,914
4,688	13,881	11	28,602	6,190	2,785,113
	10,590	98			2,173,162
271			520	7,563	98,716
					5,163
		1			777,047
		1			2,900
3,468			26,476		116,510
31	502		350		147,332
					537,745
	5,012				5,012
					167,929
993		14	1,459	3	20,348
4,763	16,104	114	28,805	7,566	4,051,864
(75)	(2,223)	(103)	(203)	(1,376)	(1,266,751)
	2,469				497,461
					(166,880)
	(202)			(850)	(31,706)
	118			29	162,826
25				3,890	1,131,566
				2,332	6,658
	22				38,638
					(284,645)
	(36)				(9,060)
25	2,371			5,401	1,344,858
(50)	148	(103)	(203)	4,025	78,107
					107,282
	14,697				45,485
					53,841
					5,786
(50)	14,845	(103)	(203)	4,025	290,501
11,023	8,789	171	6,800	(19,943)	3,832,391
$ 10,973	$ 23,634	$ 68	$ 6,597	$ (15,918)	$ 4,122,892

State of Tennessee
Statement of Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
June 30, 2006

(Expressed in Thousands)

Assets		
Cash and cash equivalents	$	62,276
Receivables:		
Loans		16,982
Total receivables		16,982
Total assets	$	79,258
Liabilities		
Accounts payable and accruals	$	1,319
Total liabilities		1,319
Net assets		
Held in trust for student loans	$	77,939

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
For the Fiscal Year Ended June 30, 2006

(Expressed in Thousands)

Additions		
Federal revenue	S	16,204
Interest income		2,430
Contribution from primary government		3,027
Other		148
Total additions		21,809
Deductions		
Collection costs		14,796
Administrative expenses		6,873
Total deductions		21,669
Change in net assets held in trust		140
Net assets, July 1		77,799
Net assets, June 30	S	77,939

SUPPLEMENTARY SCHEDULES

State of Tennessee
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2006

Schedule 1

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt (Note 1)			State Loan Program Fund Debt (Note 2)			Facilities Revolving Fund Debt (Note 3)		
	Principal	Interest	Total Require-ments	Principal	Interest	Total Require-ments	Principal	Interest	Total Require-ments
2007	$ 81,698	$ 42,380	$ 124,078	$ 864	$ 130	$ 994	$ 14,226	$ 6,679	$ 20,905
2008	76,635	38,514	115,149	899	91	990	13,429	6,001	19,430
2009	75,762	35,072	110,834	929	50	979	13,516	5,387	18,903
2010	73,205	31,504	104,709	759	17	776	13,239	4,763	18,002
2011	73,466	27,603	101,069				12,793	4,068	16,861
2012	69,702	24,167	93,869				12,747	3,468	16,215
2013	69,518	20,681	90,199				12,956	2,838	15,794
2014	63,787	17,479	81,266				12,426	2,240	14,666
2015	59,361	14,338	73,699				8,852	1,655	10,507
2016	55,296	11,543	66,839				7,684	1,354	9,038
2017	51,096	9,176	60,272				6,679	1,043	7,722
2018	42,960	7,927	50,887				5,623	929	6,552
2019	34,889	6,522	41,411				4,254	774	5,028
2020	31,351	5,080	36,431				3,836	606	4,442
2021	24,373	4,202	28,575				3,011	504	3,515
2022	24,419	3,132	27,551				3,002	378	3,380
2023	17,011	2,088	19,099				2,203	255	2,458
2024	16,767	1,574	18,341				2,191	169	2,360
2025	8,684	1,039	9,723				1,872	82	1,954
2026	8,766	716	9,482				1,848	24	1,872
2027	3,245	492	3,737						
2028	3,400	336	3,736						
2029	3,565	172	3,737						
TOTALS	$ 968,956	$ 305,737	$ 1,274,693	$ 3,451	$ 288	$ 3,739	$ 156,387	$ 43,217	$ 199,604

Note 1: General obligtion bonds principal is more than that presented in the accompanying financial statements by $24.020 million, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Tennessee State Loan Program principal is more than that presented in the accompanying financial statements by $73 thousand, which is a deduction from bonds payable for the deferred amount on refunding.

Note 3: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by $4.558 million, which is a deduction from bonds payable for the deferred amount on refunding.

State of Tennessee
Schedule of Outstanding Debt
All Fund Types
For the Last Five Fiscal Years

Schedule 2

(Expressed in Thousands)

	June 30				
	2002	2003	2004	2005	2006
Enterprise Funds:					
State Loan Program General Obligation Bonds	$ 13,924	$ 11,070	$ 8,071	$ 5,232	$ 3,378
Internal Service Funds:					
General Obligation Commercial Paper	4,131	7,936	12,684	51,650	22,899
Facilities Revolving Fund General Obligation Bonds	160,181	147,197	140,875	127,717	151,829
	164,312	155,133	153,559	179,367	174,728
General Long-Term Debt:					
General Obligation Bonds	974,700	900,334	1,000,151	917,112	944,936
General Obligation Commercial Paper	106,569	193,864	70,091	116,925	121,726
	1,081,269	1,094,198	1,070,242	1,034,037	1,066,662
Totals for Primary Government	$ 1,259,505	$ 1,260,401	$ 1,231,872	$ 1,218,636	$ 1,244,768

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2006

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt		$ 127,225
Purpose:	To finance the construction, improvements, repairs, and replacements of buildings and facilities and the acquisition of land, equipment and other property of the state.	
General Obligation Commercial Paper - Taxable		
Purpose:	To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	17,400
Total Outstanding		$ 144,625

State of Tennessee
Schedule of Outstanding Debt
Component Units
For the Last Five Fiscal Years

Schedule 4

(Expressed in Thousands)

	June 30				
	2002	2003	2004	2005	2006
Component units:					
Mid-Cumberland Community Services Agency notes			$ 23	$ 19	$ 13
Certified Cotton Growers' notes	$ 32,306	$ 29,386	24,853	21,540	19,073
Local Development Authority notes	51,513	48,950	48,134	45,970	35,401
Local Development Authority bonds	50,664	43,644	32,774	29,966	62,053
Tennessee Housing Development Agency bonds	1,820,394	1,769,506	1,489,299	1,433,430	1,568,472
Tennessee Housing Development Agency notes	67,909	51,070	273,240	311,900	262,395
Veterans' Homes Board loan			4,053	4,197	6,265
Veterans' Homes Board bonds	4,567	4,400			
Tennessee State School Bond Authority bonds	471,136	449,809	527,385	520,087	582,815
Tennessee State School Bond Authority commercial paper	13,757	46,747	32,156	74,242	129,046
University of Tennessee notes	10		75	66	307
University of Tennessee bonds			147,561	148,995	148,333
Board of Regents notes	1,284	688	746	350	300
Board of Regents bonds	551	236	80		
	$ 2,514,091	$ 2,444,436	$ 2,580,379	$ 2,590,762	$ 2,814,473

State of Tennessee
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2006 and 2005

Schedule 5

(Expressed in Thousands)

Revenues by Source	For the Year Ended June 30, 2006	For the Year Ended June 30, 2005
Taxes:		
Sales and use	$ 2,664,727	$ 2,518,446
Gasoline	9,339	9,579
Motor fuel	3,425	3,293
Gasoline inspection	689	676
Total fuel taxes	13,453	13,548
Franchise	557,203	510,214
Excise	787,913	735,463
Gross receipts	238,919	232,978
Beer	15,566	15,088
Alcoholic beverage	39,208	37,116
Mixed drink	24,528	21,572
Tobacco	658	647
Business	121,663	114,663
Insurance companies premium	359,555	337,481
Retaliatory	5,244	5,420
Workers compensation premium	48,156	50,537
Medicaid provider	100,394	99,677
Other	2,059	1,755
Total business taxes	2,301,066	2,162,611
Income	194,368	155,919
Privilege	304,754	264,798
Inheritance and estate	76,288	82,890
Other	1,420	631
Total other taxes	576,830	504,238
Total taxes	5,556,076	5,198,843
Licenses, fines, fees and permits:		
Motor vehicle registration	47,480	47,830
Motor vehicle title registration fees	8,364	8,696
Drivers licenses	23,673	23,712
Arrests, fines and fees	9,852	9,906
Regulatory board fees	32,327	33,847
Other	62,893	57,079
Total licenses, fines, fees and permits	184,589	181,070
Interest on investments	77,406	29,101
Federal - earned by state departments	6,922,657	7,439,578
Departmental services:		
Charges to the public	340,921	351,939
Interdepartmental charges	1,308,106	1,127,463
Charges to cities, counties, etc.	447,587	772,706
Total departmental services	2,096,614	2,252,108
Other	190,977	252,937
Total revenues by source	$ 15,028,319	$ 15,353,637

State of Tennessee
Comparative Schedules of Expenditures by Function and Department
General Fund
For the Fiscal Years Ended June 30, 2006 and 2005

(Expressed in Thousands)

Schedule 6

Expenditures by function and department	For the Year Ended June 30, 2006	For the Year Ended June 30, 2005
General government:		
Legislative	$ 34,021	$ 30,749
Secretary of State	35,564	33,424
Comptroller	72,155	70,118
Treasurer	44,968	38,075
Governor	5,782	5,461
Commissions	64,655	64,652
Finance and Administration	132,039	54,738
Personnel	11,974	11,563
General Services	17,701	18,716
Revenue	66,111	63,808
Miscellaneous Appropriations	14,379	14,771
Total general government	499,349	406,075
Health and social services:		
Veterans Affairs	3,685	3,333
Labor and Workforce Development	183,637	178,123
TennCare	7,027,723	8,569,292
Mental Health	250,808	226,108
Mental Retardation	776,029	693,586
Health	503,348	454,481
Human Services	1,928,988	1,822,212
Children's Services	599,467	571,162
Total health and social services	11,273,685	12,518,297
Law, justice and public safety:		
Judicial	225,649	214,934
Correction	558,208	526,183
Probation and Paroles	63,592	59,824
Military	137,799	95,385
Bureau of Criminal Investigation	55,743	50,400
Safety	170,161	157,550
Total law, justice and public safety	1,211,152	1,104,276
Recreation and resources development:		
Agriculture	68,549	57,305
Tourist Development	16,175	12,070
Environment and Conservation	210,247	180,742
Economic and Community Development	82,116	70,711
Total recreation and resources development	377,087	320,828
Regulation of business and professions:		
Commerce and Insurance	54,822	53,129
Financial Institutions	11,932	10,387
Total regulation of business and professions	66,754	63,516
Intergovernmental revenue sharing	447,840	394,490
Total expenditures by function and department	$ 13,875,867	$ 14,807,482

STATISTICAL SECTION

STATISTICAL SECTION

This part of the State of Tennessee's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the state's overall financial health.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	186
Revenue Capacity These schedules contain information to help the reader assess the State's most significant local revenue sources, the sales tax.	190
Debt Capacity These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	192
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	194
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	195
Component Units These schedules contain debt information related to the University of Tennessee and the Tennessee Board of Regent's institutions – component units of the State. The schedules assist in understanding the resources available to pay debt service.	197
Index Page references for Securities and Exchange Commission disclosures contained in this report.	201

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement 34 in fiscal year ended June 30, 2002; schedules presenting government-wide information include information beginning in that year.

Schedule 1

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

(continued on next page)

	FOR THE FISCAL YEAR ENDED JUNE 30,				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government	$ 514,419	$ 510,674	$ 546,996	$ 596,016	$ 705,897
Education	4,326,480	4,520,624	4,692,605	5,158,369	5,449,613
Health and social services	8,499,713	9,507,209	10,583,726	11,522,061	10,170,957
Law, justice, and public safety	918,970	968,859	1,032,302	1,090,779	1,214,957
Recreation and resources development	362,068	376,734	479,251	423,342	466,689
Regulation of business and professions	59,493	64,109	81,940	113,902	86,945
Transportation	683,229	726,476	787,646	698,450	671,641
Intergovernmental revenue sharing	686,515	641,271	647,654	683,925	738,349
Interest on long-term debt	55,114	50,610	51,819	42,902	49,460
Total governmental activities expenses	16,106,001	17,366,566	18,903,939	20,329,746	19,554,508
Business-type activities:					
Employment security	739,008	767,202	639,993	476,646	452,043
Insurance programs	353,534	379,661	416,871	430,568	471,032
Loan programs	2,585	2,273	1,737	1,909	1,487
Other	1,410	1,802	2,037	2,498	2,496
Total business-type activities expenses	1,096,537	1,150,938	1,060,638	911,621	927,058
Total primary government expenses	$ 17,202,538	$ 18,517,504	$ 19,964,577	$ 21,241,367	$ 20,481,566
Program Revenues					
Governmental activities:					
Charges for services:					
General government	$ 281,379	$ 273,503	$ 342,154	$ 380,679	$ 375,640
Education	10,155	15,922	16,966	13,568	26,785
Health and social services (1)	195,421	190,570	857,951	942,909	607,601
Law, justice, and public safety	341,615	336,115	313,386	316,337	374,715
Recreation and resources development	110,033	114,618	124,105	140,227	138,970
Regulation of business and professions	86,468	95,953	107,355	115,556	124,435
Transportation	13,045	13,339	13,636	15,494	15,118
Operating grants and contributions	6,454,927	7,452,665	8,095,087	8,777,283	8,314,981
Capital grants and contributions	560,074	568,221	503,539	520,090	615,584
Total governmental activities program revenues	8,053,117	9,060,906	10,374,179	11,222,143	10,593,829
Business-type activities:					
Charges for services:					
Employment security	335,723	437,378	523,372	463,385	381,600
Insurance programs	338,085	385,384	422,584	462,441	479,515
Loan programs	13,449	12,590	12,733	12,878	12,970
Other	1,368	1,998	2,111	2,593	2,803
Operating grants and contributions	342,469	256,444	208,296	100,536	131,043
Capital grants and contributions					
Total business-type activities program revenues	1,031,094	1,093,794	1,169,096	1,041,833	1,007,931
Total primary government program revenues	$ 9,084,211	$ 10,154,700	$ 11,543,275	$ 12,263,976	$ 11,601,760
Net (Expense)/Revenue					
Governmental activities	$ (8,052,884)	$ (8,305,660)	$ (8,529,760)	$ (9,107,603)	$ (8,960,679)
Businesss-type activities	(65,443)	(57,144)	108,458	130,212	80,873
Total primary government net expense	$ (8,118,327)	$ (8,362,804)	$ (8,421,302)	$ (8,977,391)	$ (8,879,806)

Schedule 1

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

(continued from previous page)

	FOR THE FISCAL YEAR ENDED JUNE 30,				
	2002	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Sales and use	$ 4,656,105	$ 5,478,642	$ 5,806,268	$ 6,099,159	$ 6,540,224
Fuel	787,132	813,554	829,372	846,826	851,362
Business	1,783,486	2,067,713	2,184,170	2,396,141	2,592,238
Other	490,958	425,099	526,573	514,938	598,827
Grants and contributions not restricted to specific programs	159,511	149,746	152,676	46,807	
Unrestricted investment earnings	37,802	11,582	12,079	30,361	81,287
Miscellaneous	281,952	230,770	207,653	209,226	185,466
Contributions to permanent funds	354	381	351	468	369
Transfers	(16,819)	(18,881)	(18,829)	(21,062)	(22,783)
Total governmental activities	8,180,481	9,158,606	9,700,313	10,122,864	10,826,990
Business-type activities:					
Transfers	16,819	18,881	18,829	21,062	22,783
Total business-type activities	16,819	18,881	18,829	21,062	22,783
Total primary government	$ 8,197,300	$ 9,177,487	$ 9,719,142	$ 10,143,926	$ 10,849,773
Changes in Net Assets					
Governmental activities	$ 127,597	$ 852,946	$ 1,170,553	$ 1,015,261	$ 1,866,311
Businesss-type activities	(48,624)	(38,263)	127,287	151,274	103,656
Total primary government	$ 78,973	$ 814,683	$ 1,297,840	$ 1,166,535	$ 1,969,967

(1) The increase in program revenues of the health and social services function between fiscal years 2003 and 2004 resulted from the reclassification of certain revenues from operating grants and contributions to charges for services. The effect of the decrease in operating grants and contributions was neutralized by an increase in federal funding to the Tenncare program to compensate for rising healthcare costs.

Schedule 2

STATE OF TENNESSEE
FINANCIAL TRENDS - NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,				
	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets, net of related debt	$ 17,457,541	$ 18,119,735	$ 18,691,308	$ 19,406,978	$ 20,204,007
Restricted	665,673	703,010	843,889	580,840	725,209
Unrestricted (1)	69,056	288,523	743,586	1,306,226	2,204,315
Total governmental activities net assets	18,192,270	19,111,268	20,278,783	21,294,044	23,133,531
Business-type activities					
Invested in capital assets, net of related debt					
Restricted	1,239,236	1,181,636	1,288,353	1,389,261	1,459,045
Unrestricted	31,655	50,992	71,562	121,928	155,800
Total business-type activities net assets	1,270,891	1,232,628	1,359,915	1,511,189	1,614,845
Primary Government					
Invested in capital assets, net of related debt	17,457,541	18,119,735	18,691,308	19,406,978	20,204,007
Restricted	1,904,909	1,884,646	2,132,242	1,970,101	2,184,254
Unrestricted	100,711	339,515	815,148	1,428,154	2,360,115
Total primary government net assets	$ 19,463,161	$ 20,343,896	$ 21,638,698	$ 22,805,233	$ 24,748,376

(1) The increase in unrestricted net assets between fiscal years 2004 and 2005 is attributable, in part, to the implementation of GASB Statement 46 which caused a reduction in restricted net assets. In addition, because the state lottery was operational for only six months during fiscal year 2004 fewer funds were restricted for lottery scholarships when compared to fiscal year 2005.

Schedule 3

STATE OF TENNESSEE
FINANCIAL TRENDS - FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	$ 158,363	$ 223,735	$ 322,362	$ 571,236	$ 534,116	$ 435,600	$ 486,319	$ 693,371	$ 594,405	$ 960,229
Unreserved	187,249	354,105	224,923	371,477	461,964	195,941	202,603	658,055	737,779	1,070,124
Total general fund(1)	$ 345,612	$ 577,840	$ 547,285	$ 942,713	$ 996,080	$ 631,541	$ 688,922	$ 1,351,426	$ 1,332,184	$ 2,030,353
All Other Governmental Funds										
Reserved	$ 601,802	$ 599,000	$ 647,182	$ 617,191	$ 659,095	$ 876,919	$ 922,258	$ 1,061,453	$ 1,307,412	$ 1,166,534
Unreserved, reported in:										
Special revenue funds	268	1,889	367	58	103	50	50	50	50	345,143
Debt service fund	4,531	4,356	1,335	2,750	3,407					5,377
Capital projects fund	(35,075)	(33,106)	48,221	62,243	131,833					49,749
Total all other governmental funds	$ 571,526	$ 572,139	$ 697,105	$ 682,242	$ 794,438	$ 876,969	$ 922,308	$ 1,061,503	$ 1,307,462	$ 1,566,803

(1) The increase in the fund balance of the general fund between fiscal years 2003 and 2004 resulted from higher revenue collections. A favorable economy caused increases in sales, excise, franchise, business, and income tax collections. However, expenditures in fiscal year 2004 did not increase at the same rate. The result was an increase of $625 million in the General Fund total fund balance. A majority of the increase in the *reserved* component was from the Reserve for Unencumbered Balance and the Reserve for Federal Tax Relief. The largest part of the increase in the *unreserved* component resulted in the Reserve for Supplemental Appropriations and the Reserve for Future Requirements.

Schedule 4

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	$ 6,214,859	$ 6,556,385	$ 6,783,904	$ 7,343,069	$ 8,112,402	$ 7,718,442	$ 8,695,598	$ 9,357,356	$ 9,903,848	$ 10,573,235
Licenses, fines, fees, and permits	169,873	174,754	191,095	205,031	224,294	460,920	480,629	505,538	540,001	552,937
Interest on investments	19,296	35,977	47,683	53,819	92,127	36,618	28,429	34,102	46,222	102,075
Federal	4,636,905	4,831,199	5,124,273	5,537,353	6,184,126	6,694,648	7,646,384	8,417,534	8,988,687	8,568,732
Departmental services	1,034,691	1,129,859	1,282,634	1,512,483	1,748,165	1,607,251	1,716,159	2,071,252	2,360,891	2,238,968
Other	22,624	47,537	40,155	352,183	356,029	444,450	384,536	488,769	502,074	491,064
Total revenues	12,098,248	12,775,711	13,469,744	15,003,938	16,717,143	16,962,329	18,951,735	20,874,551	22,341,723	22,527,011
Expenditures										
Current:										
General government	287,635	289,194	345,746	330,255	349,278	358,523	392,747	400,069	425,243	530,637
Education (1)	2,535,513	2,731,599	2,859,303	2,947,577	3,059,538	4,218,637	4,432,071	4,630,294	5,100,147	5,353,167
Health and social services	5,829,651	6,094,595	6,596,034	7,446,923	8,641,777	9,250,026	10,342,682	11,308,871	12,518,297	11,273,685
Law, justice, and public safety	694,610	742,714	825,010	872,353	897,805	914,307	970,042	1,042,510	1,109,819	1,216,756
Recreation and resources development	385,673	372,119	382,614	429,389	419,423	446,137	442,915	479,243	491,681	544,744
Regulation of business and professions	41,598	41,402	46,346	49,325	57,988	65,040	71,109	88,580	119,620	92,888
Transportation	1,079,683	1,145,536	1,164,776	1,271,170	1,269,773	1,311,654	1,357,941	1,318,913	1,411,906	1,477,504
Intergovernmental revenue sharing					681,151	686,515	641,271	647,654	683,925	738,349
Debt service:	92,286	100,556	111,530	123,783	122,221					
Principal						68,304	78,108	80,243	89,474	86,532
Interest						54,121	47,964	49,956	43,455	49,319
Debt issuance costs						1,282	650	1,945	2,159	1,082
Capital outlay	79,769	121,651	105,889	70,866	55,679	145,590	132,949	128,167	119,730	253,229
Total expenditures	11,026,418	11,639,366	12,437,248	13,541,641	15,554,633	17,520,136	18,910,449	20,176,445	22,115,456	21,617,892
Revenues over (under) expenditures	1,071,830	1,136,345	1,032,496	1,462,297	1,162,510	(557,807)	41,286	698,106	226,267	909,119
Other Financing Sources (Uses)										
Capital Lease	661									
Bonds and commercial paper issued	355,429	171,600	253,150	263,146	223,408	168,017	95,195	206,933	52,979	228,409
Notes/Commercial paper redeemed	(122,800)	(62,000)	(60,978)	(197,728)	(79,160)	(152,091)	(3,900)	(155,796)		(109,908)
Insurance claim recoveries										1,670
Premium on bond sale		2,124	1,522		586	5,149		6,485		2,485
Refunding bonds issued			207,085						355,053	
Refunding bond premium									31,929	
Refunding payment to escrow			(205,624)						(386,261)	
Transfers in	580,618	545,432	565,885	472,275	567,901	766,097	679,743	661,064	812,886	733,813
Transfers out	(1,651,160)	(1,563,095)	(1,693,625)	(1,619,425)	(1,748,989)	(787,813)	(708,252)	(691,729)	(866,136)	(808,078)
Total other financing sources (uses)	(837,252)	(905,939)	(932,585)	(1,081,732)	(1,036,254)	(641)	62,786	26,957	450	48,391
Net Change in Fund Balances	$ 234,578	$ 230,406	$ 99,911	$ 380,565	$ 126,256	$ (558,448)	$ 104,072	$ 725,063	$ 226,717	$ 957,510
Debt Service as a Percentage of Noncapital Expenditures						0.6720%	0.6937%	0.6691%	0.6241%	0.6553%

(1) The increase in expenditures in the Education function between 2001 and 2002 resulted from primarily from implementing GASB Statement 34. Amounts reported as a transfer to component units in fiscal year 2001 were recorded as expenditures in fiscal year 2002.

Schedule 5

STATE OF TENNESSEE
REVENUE CAPACITY - TAXABLE SALES BY CLASSIFICATION
LAST TEN CALENDAR YEARS
(expressed in millions)

	FOR THE CALENDAR YEAR ENDED JUNE 30,									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 (forecasted)
Auto dealers	$ 6,614	$ 6,665	$ 7,128	$ 8,110	$ 8,378	$ 8,648	$ 8,834	$ 9,426	$ 9,430	$ 9,555
Purchases from manufacturers	4,142	4,372	4,276	4,238	4,201	3,957	3,653	3,934	4,153	4,774
Miscellaneous durable goods	10,380	11,896	11,287	12,833	13,013	12,359	12,271	12,889	14,175	15,841
Eating and drinking places	4,945	5,220	5,478	5,864	6,205	6,446	6,559	6,902	7,443	7,915
Food stores	7,297	7,474	7,575	7,892	8,132	8,094	7,619	7,137	7,215	7,436
Liquor stores	321	335	338	366	385	397	408	433	458	491
Hotels and motels	1,485	1,627	1,669	1,753	1,830	1,785	1,776	1,821	1,881	2,034
Other retail and service	17,235	18,379	19,149	20,655	21,494	21,400	21,714	22,599	23,633	25,155
Miscellaneous nondurable goods	4,917	5,492	5,430	6,170	6,334	6,309	6,253	6,265	6,546	6,993
Transportation, communication	3,326	4,571	3,929	4,448	4,683	5,134	5,720	6,012	6,406	6,556
Total taxable sales	$ 60,662	$ 66,031	$ 66,259	$ 72,329	$ 74,655	$ 74,529	$ 74,807	$ 77,418	$ 81,340	$ 86,750

Source: University of Tennessee Economic Report to the Governor

Schedule 6

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX RATES
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:	N/A	N/A	N/A	N/A	N/A	N/A	6.00%	6.00%	6.00%	6.00%
Retail sale of food and food ingredients for human consumption (except vending machines)										
Energy fuels used by manufacturers and nurserymen	N/A	N/A	N/A	N/A	N/A	N/A	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	N/A	N/A	N/A	N/A	N/A	N/A	1.00%	1.00%	1.00%	1.00%
Manufactured homes	N/A	N/A	N/A	N/A	N/A	N/A	3.00%	3.50%	3.50%	3.50%
Aviation fuel	N/A	N/A	N/A	N/A	N/A	N/A	4.50%	4.50%	4.50%	4.50%
Common carriers	N/A	N/A	N/A	N/A	N/A	N/A	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	N/A	N/A	N/A	N/A	N/A	N/A	3.50%	7.50%	7.50%	7.50%
Aircraft exceeding $100,000 sales price	N/A	N/A	N/A	N/A	N/A	N/A	3.00%	N/A	N/A	N/A
Cable and wireless TV (between $15 and $27.50) and satellite services	N/A	N/A	N/A	N/A	N/A	N/A	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property ($1,601 to $3,200)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.75%	2.75%	2.75%

Source: State of Tennessee Budget; Department of Finance and Administration, Division of Budget
Note: N/A - Not applicable because this item was not specifically identified with a rate separate from the general rate.

Schedule 7

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX COLLECTIONS BY TAXPAYER CLASSIFICATION
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retail:										
Building materials	$ 203,991	$ 208,546	$ 225,753	$ 239,702	$ 224,268	$ 233,385	$ 271,969	$ 328,562	$ 363,952	$ 405,812
General merchandise	442,484	470,447	494,498	529,829	543,088	575,230	654,071	712,426	735,074	767,584
Food stores	437,981	442,494	454,136	465,827	469,960	465,911	478,857	485,947	494,466	508,497
Auto dealers and service stations	505,480	527,673	583,488	630,662	622,544	645,670	751,167	820,454	815,985	817,689
Apparel and accessory stores	119,471	125,404	136,055	134,972	137,616	137,851	160,688	177,017	185,683	194,946
Furniture and home furnishings	121,959	130,730	148,101	163,763	169,378	162,401	189,506	209,525	222,089	238,475
Eating and drinking places	301,026	312,759	333,506	349,475	362,716	379,566	435,505	486,680	518,689	547,547
Miscellaneous retail stores	293,572	309,938	335,915	360,992	372,632	378,101	443,114	491,443	508,694	550,340
Total retail	2,425,964	2,527,991	2,711,452	2,875,222	2,902,202	2,978,115	3,384,877	3,712,054	3,844,632	4,030,890
Services:										
Hotels and lodging places	92,705	96,925	100,535	104,569	104,794	102,036	118,247	124,795	131,675	142,333
Personal services	36,431	37,505	38,196	38,981	39,316	41,982	47,623	51,845	49,818	49,375
Business services	163,139	175,545	191,845	185,286	184,803	167,634	189,019	199,677	218,799	234,810
Auto repair, services, and parking	110,593	118,805	130,392	137,716	140,215	137,546	153,418	163,687	159,935	163,710
Miscellaneous repair services	23,458	20,721	21,559	21,454	20,282	19,809	21,914	23,606	24,873	27,100
Motion pictures	12,258	12,981	14,717	15,624	16,105	17,320	20,868	23,244	22,851	22,282
Amusement services	41,692	37,955	36,503	40,149	39,660	41,477	45,116	49,106	50,854	54,629
Health services	9,161	9,949	9,591	7,376	9,459	8,951	9,137	10,818	11,139	11,710
Other services	12,176	11,957	12,884	13,958	20,833	19,002	23,503	26,747	31,025	34,282
Total services	501,613	522,343	556,222	565,113	575,467	555,757	628,845	673,525	700,969	740,231
Non-retail, non-services:										
Agriculture, forestry, fishing	4,098	4,223	4,696	4,829	4,797	4,774	5,133	5,812	5,968	6,920
Mining	7,042	7,521	6,752	4,011	4,981	4,341	4,126	5,286	5,073	5,635
Construction	42,085	74,192	45,211	50,770	40,689	41,851	38,168	42,275	42,640	48,540
Manufacturing	242,564	246,393	241,857	233,960	232,558	209,366	236,163	261,260	289,494	312,570
Transportation	21,909	40,107	23,280	25,798	24,678	5,991	22,856	26,895	36,239	42,825
Communications	216,614	206,784	210,972	247,479	257,754	308,184	361,677	398,105	385,544	442,837
Electric, gas, and sanitary services	101,755	109,635	117,122	119,574	133,325	128,072	149,710	163,358	174,794	194,574
Wholesale trade	256,354	267,019	279,024	299,784	292,179	243,826	280,882	321,014	349,023	418,607
Finance, insurance, real estate	20,915	21,581	19,690	19,497	14,167	11,998	12,376	11,396	11,037	12,899
Total non-retail, non-services	913,336	977,455	948,604	1,005,702	1,005,128	958,403	1,111,091	1,235,401	1,299,812	1,485,407
County Clerk	57,993	61,641	69,364	75,020	76,608	82,391	94,705	108,781	112,753	114,767
Consumer Use Tax	N/A	N/A	N/A	N/A	N/A	N/A	104,786	4,647	5,313	7,545
Grand Total	$ 3,898,906	$ 4,089,430	$ 4,285,642	$ 4,521,057	$ 4,559,405	$ 4,574,666	$ 5,324,304	$ 5,734,408	$ 5,963,479	$ 6,378,840

Source: Revenue Collections Reports, Tennessee Department of Revenue

Note: N/A means not available.

Schedule 8

STATE OF TENNESSEE
DEBT CAPACITY - RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(expressed in thousands; except for per capita and population)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Governmental activities debt:										
General obligation bonds	$ 910,395	$ 966,204	$ 1,062,850	$ 983,721	$ 1,049,456	$ 1,134,881	$ 1,047,531	$ 1,141,026	$ 1,044,830	$ 1,096,765
General obligation bond anticipation notes	150,100	139,100	177,300							
General obligation commercial paper				248,500	250,000	110,700	201,800	82,775	168,575	144,625
Capital leases	631	588	543	496	562	483	788	1,008	1,229	5,375
Total governmental activities debt	1,061,126	1,105,892	1,240,693	1,232,717	1,300,018	1,246,064	1,250,119	1,224,809	1,214,634	1,246,765
Business-type activities debt:										
General obligation bonds	29,494	26,605	23,551	20,347	17,213	13,924	11,070	8,071	5,232	3,378
Total business-type activities debt	29,494	26,605	23,551	20,347	17,213	13,924	11,070	8,071	5,232	3,378
Total primary government debt	$ 1,090,620	$ 1,132,497	$ 1,264,244	$ 1,253,064	$ 1,317,231	$ 1,259,988	$ 1,261,189	$ 1,232,880	$ 1,219,866	$ 1,250,143
Debt Ratios										
Total Personal income	124,699,000	133,620,000	140,395,000	148,834,000	154,416,000	159,102,000	166,076,000	175,885,000	185,872,000	N/A
Ratio of total debt to personal income	0.87%	0.85%	0.90%	0.84%	0.85%	0.79%	0.76%	0.70%	0.66%	
Total Population	N/A	N/A	N/A	5,689	5,747	5,790	5,842	5,893	5,963	N/A
Primary government debt per capita	N/A	N/A	N/A	$ 220	$ 229	$ 218	$ 216	$ 209	$ 205	$
General Bonded Debt:										
General obligation bonds	939,889	992,809	1,086,401	1,004,068	1,066,669	1,148,805	1,058,601	1,149,097	1,050,062	1,100,143
General obligation bond anticipation notes	150,100	139,100	177,300							
General obligation commercial paper				248,500	250,000	110,700	201,800	82,775	168,575	144,625
Total net bonded debt	1,089,989	1,131,909	1,263,701	1,252,568	1,316,669	1,259,505	1,260,401	1,231,872	1,218,637	1,244,768
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	63.68%	54.88%	50.01%	69.48%	60.91%	61.03%	65.48%	70.45%	73.21%	75.68%

Source: State of Tennessee Comprehensive Annual Financial Report
and the University of Tennessee Economic Report to the Governor

Notes: (1) N/A - not available because the source did not provide the data.
(2) See Schedule 10 for personal income and population data.
(3) Details of the state's debt can be found in Note 5H in the basic financial statements.

Schedule 9

STATE OF TENNESSEE
DEBT CAPACITY - LEGAL DEBT SERVICE MARGIN INFORMATION
LAST TEN FISCAL YEARS
(expressed in thousands)

Calculation of 2006 pledged revenues:	Collections for Fiscal Year 2006 Portion Pledged	All Governmental Fund Types	Fiscal Year 2006 Pledged Amount
Gasoline tax	29.3%	$ 605,599	$ 177,441
Petroleum products fee	100%	64,520	64,520
Motor vehicle registration fee	50%	249,702	124,852
Franchise tax	100%	575,202	575,202
		$ 1,495,023	$ 942,015

Pledged amount	$ 942,015
Legal debt service limit (pledged amount/150%)	628,010
Less: 2006 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligations bonds	148,033
Legal debt service margin	$ 479,977

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	$ 462,742	$ 414,106	$ 421,360	$ 580,201	$ 534,682	$ 512,464	$ 550,211	$ 578,609	$ 594,778	$ 628,010
Total net debt service applicable to limit	109,552	117,895	125,924	138,481	131,593	142,075	148,079	143,702	155,215	148,033
Legal debt service margin	$ 353,190	$ 296,211	$ 295,436	$ 441,720	$ 403,089	$ 370,389	$ 402,132	$ 434,907	$ 439,563	$ 479,977
Legal debt service margin as a percentage of the debt limit	76.33%	71.53%	70.11%	76.13%	75.39%	72.28%	73.09%	75.16%	73.90%	76.43%

Schedule 10

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE LAST TEN CALENDAR YEARS
(expressed in thousands; except per capita)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 Est
Population	N/A	N/A	N/A	N/A	5,689	5,747	5,790	5,842	5,893	5,963
Total personal income		124,699,000	133,620,000	140,395,000	148,834,000	154,416,000	159,102,000	166,076,000	175,885,000	185,872,000
Per capita personal income		23.158	24.567	25.437	26.168	26.842	27.434	28.377	29.761	31.127
Unemployment rate		5.3%	4.5%	4.1%	4.0%	4.6%	5.2%	5.5%	5.4%	5.6%

Source: Population from www.census.gov
All other from the University of Tennessee Economic Report to the Governor
Note: N/A means not available.

Schedule 11

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION - PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2006			1997		
Employer	Number of Employees	Rank	Percentage of Total State Employment	Number of Employees	Rank	Percentage of Total State Employment
Federal Government	49,328	1	1.80%	54,146	1	2.05%
State Government	46,961	2	1.71%	40,911	2	1.55%
Shelby County Local Government	42,864	3	1.56%	39,065	3	1.48%
Wal-Mart Associates Inc.	32,000	4	1.17%			
Federal Express Inc.	30,000	5	1.09%	25,126	4	0.95%
Davidson County Local Governments	22,893	6	0.84%	20,523	5	0.78%
Knox County Local Governments	15,505	7	0.57%	15,747	8	0.60%
Kroger Limited Partnership Inc.	15,500	8	0.57%			
Tennessee Board of Regents	15,309	9	0.56%	13,778	10	0.52%
Hamilton County Local Governments	14,997	10	0.55%	15,306	9	0.58%
Eastman Chemical Corporation				17,500	6	0.66%
Martin Marietta Corporation				16,760	7	0.63%
Total	146,204		5.33%	124,740		4.73%

	Calendar Year 2006 (est)	Calendar Year 1997
Total State Employment	2,741,000	2,640,000

Source: Tennessee Department of Labor & Workforce Development,
Tennessee Department of Economic & Community Development,
and the Tennessee Board of Regents

Note: Time periods related to number of employees vary depending on the source.

Schedule 12

STATE OF TENNESSEE
OPERATING INFORMATION - FULL TIME EMPLOYEES BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government	3,964	4,076	4,123	4,045	4,150	4,114	4,163	4,254	4,394	4,671
Education	911	918	943	941	979	955	966	1,014	1,028	1,025
Health and social services (1)	17,317	17,195	17,327	17,564	18,147	18,852	19,144	19,255	20,431	21,246
Law, justice and public safety	9,607	9,547	9,836	10,079	10,406	10,681	10,569	10,691	10,922	10,987
Recreation and resources development	3,715	3,690	3,734	3,681	3,718	3,586	3,689	3,762	3,757	3,846
Regulation of business and professions	585	589	590	600	624	646	668	680	718	738
Transportation	4,812	4,802	4,791	4,620	4,620	4,559	4,528	4,460	4,454	4,448
Total	40,911	40,817	41,344	41,530	42,644	43,393	43,727	44,116	45,704	46,961

Source: Department of Personnel

(1) In 2005, in the Department of Human Services, a Tenncare appeals unit, and three new family assistance service centers were established.

Schedule 13

STATE OF TENNESSEE
OPERATING INFORMATION - CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Motor pool vehicles						7,587	7,701	7,785	6,689	7,067
Buildings					62	62	61	61	108	107
Machinery and equipment					3,282	3,233	3,581	3,861	3,634	3,637
Education										
Number of residential schools					4	4	4	4	4	4
Machinery and equipment					210	167	223	228	244	219
Health and social services										
Buildings					417	397	391	388	342	340
Machinery and equipment					2,014	1,916	1,973	1,964	2,031	2,142
Law, justice and public safety										
Correctional facilities					19	19	19	19	19	19
Armories					89	90	90	86	86	86
Machinery and equipment					1,728	1,739	1,882	2,009	2,352	2,532
Recreation and resources development										
Acreage of state parks	150,049	153,380	155,153	156,643	156,643	158,252	158,581	158,723	164,251	164,399
Machinery and equipment					1,991	1,884	2,093	2,185	2,295	2,476
Regulation of business and professions										
Machinery and equipment					72	59	68	82	93	104
Transportation										
State highways (in miles)	13,722	14,022	14,056	14,073	14,111	14,107	14,107	14,289	14,151	14,163
Bridges, state highways	18,971	19,169	19,201	19,403	19,453	19,453	19,493	19,621	19,646	19,432
Facilities					122	120	120	120	122	122
Buildings					631	629	671	682	710	713

Schedule 14

STATE OF TENNESSEE
OPERATING INFORMATION - OPERATING INDICATORS
FOR THE LAST TEN FISCAL YEARS

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Tax returns processed (1)	2,079,252	1,970,870	2,075,559	2,077,000	2,148,643	2,125,072	1,999,458	2,225,891	2,013,809	2,398,453
New corporate charters registered	11,963		10,996	11,471	12,162	11,716	11,563	11,826	12,103	11,807
Investment return on total portfolio	5.50%	5.64%	5.22%	5.66%	5.94%	2.67%	1.64%	1.11%	2.12%	4.11%
Residential and commercial property reappraisals completed	898,704	730,947	426,098	130,668	1,435,746	475,539	256,916	265,373	1,441,168	554,798
Education										
Number of public schools (K-12)	1,563	1,575	1,589	1,611	1,623	1,646	1,659	1,677	1,693	1,699
Enrollment of public schools (K-12)	962,645	978,438	967,556	992,031	984,015	958,496	973,170	973,626	976,574	991,489
Number of high school graduates from public schools	44,378	43,533	44,597	45,825	44,873	44,622	48,341	50,203	51,436	53,960
Health and social services										
TennCare enrollees	1,206,300	1,281,200	1,332,300	1,340,500	1,445,900	1,428,600	1,287,600	1,336,700	1,213,800	1,187,500
Food stamp recipients	630,600	640,300	517,900	496,435	504,443	578,144	692,300	791,695	833,687	870,304
Percentage of population				8.73%	8.78%	9.99%	11.85%	13.43%	13.98%	
Temporary assistance recipients	235,409	188,490	146,928	144,393	153,845	163,840	68,300	73,158	72,676	70,108
Percentage of population				2.54%	2.68%	2.83%	1.17%	1.24%	1.22%	
Children in state custody (2)	11,925	11,859	11,755	11,217	10,819	10,259	10,345	10,869	10,467	9,700
Percentage of population				0.20%	0.19%	0.18%	0.18%	0.18%	0.18%	
Mental health institutes average daily census	924	885	934	928	985	941	958	960	888	923 (est.)
Law, justice and public safety										
Correctional institutions average daily census	13,371	14,941	15,712	16,547	16,920	17,372	18,170	19,117	19,141	20,258 (est.)
Department of Safety citations issued	390,129	387,740	377,161	406,523	415,928	415,030	388,356	423,305	453,630	472,465
Drivers licenses issued	1,379,000	1,117,220	1,200,000	1,261,467	1,402,735	1,281,106	1,271,141	1,334,417	1,351,241	1,711,655
Recreation and resources development										
Hunting/fishing licenses and boats registered	802,986	795,764	803,201	761,689	735,941	722,949	718,307	723,305	733,554	690,426 (est.)
Wetland acres acquired	3,293	4,039	2,426	7,160	10,873	4,798	74,831	6,369	782	3,308 (est.)
Number of visitors to state parks	28,937,948	31,060,240	31,833,942	30,182,137	28,824,110	28,821,110	26,878,838	26,702,434	27,604,112	28,859,399
Air pollution monitoring sites	112	104	107	109	104	99	92	91	86	87
Regulation of business and professions										
Fire safety inspections	14,352	13,591	17,982	15,189	20,087	12,574		41,402		18,418
Consumer affairs written complaints	7,356	6,841	5,300	5,111	5,017	4,660		4,747		5,528
Transportation										
Lane miles resurfaced (3)	2,397	2,443	2,694	2,412	2,748	3,483	2,194	2,238	2,351	1,541
HELP program services provided				50,451	85,267	150,086	123,809	137,615	148,805	154,362

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, and unruly.
(3) Amounts are reported on a calendar year basis; the 2006 amount is through August 2006.
(4) Population figures used in calculating 2005 percentages are estimated.
(5) Blank lines indicate that data is unavailable.

State of Tennessee
Schedule of Fees/Charges, Legislative Appropriations and Debt Service
Component Units
College and University Funds
For the Last Ten Years

(Expressed in Thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 587,138	$ 374,249	$ 21	$ 26,891
1998	559,661	367,938	21	28,657
1999	622,109	373,207	21	24,431
2000	410,086	375,872	21	16,872
2001	401,918	408,671	21	18,628
2002	438,956	406,146	21	24,804
2003	413,632	409,612	-	24,508
2004	417,191	406,033	75	25,317
2005	448,955	430,412	66	23,896
2006	484,786	440,014	56	26,075

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 75,167	$ 91,212	-	$ 2,889
1998	80,625	89,924	-	2,991
1999	93,593	93,576	-	3,054
2000	102,186	94,289	-	2,353
2001	114,031	97,499	-	3,777
2002	120,196	99,786	-	6,334
2003	127,638	102,139	-	6,291
2004	128,880	100,602	-	5,609
2005	134,065	106,393	-	4,993
2006	148,290	108,395	-	169

Austin Peay State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 19,178	$ 25,733	$ 48	$ 641
1998	20,420	25,559	48	672
1999	23,188	27,444	48	651
2000	24,288	28,001	48	649
2001	26,555	28,051	48	649
2002	33,157	30,484	48	1,516
2003	36,201	31,100	48	1,515
2004	33,058	30,712	48	2,242
2005	34,012	32,216	48	2,104
2006	39,907	32,684	-	2,114

Middle Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 57,341	$ 63,529	-	$ 1,668
1998	62,814	64,469	-	1,872
1999	70,530	70,576	-	3,357
2000	78,317	73,273	-	4,886
2001	86,328	76,159	-	5,472
2002	62,437	77,990	-	6,537
2003	71,185	82,144	-	6,540
2004	84,404	81,057	-	6,937
2005	86,644	85,305	-	6,455
2006	96,307	86,971	-	8,006

East Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 53,232	$ 68,469	-	$ 1,597
1998	57,826	67,202	-	1,588
1999	64,652	70,814	-	1,743
2000	64,386	72,837	$ 258	1,954
2001	59,516	75,937	261	1,916
2002	65,342	77,965	261	2,608
2003	68,805	79,735	319	2,609
2004	77,570	79,247	315	2,824
2005	77,284	83,221	312	2,221
2006	79,200	86,173	2,242	2,995

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 34,352	$ 32,227	$ 135	$ 1,157
1998	39,141	32,052	135	1,257
1999	46,423	35,597	66	1,470
2000	52,156	36,337	66	2,056
2001	54,979	34,843	66	2,193
2002	45,119	35,067	-	3,137
2003	57,939	39,040	-	3,136
2004	53,840	40,621	-	3,001
2005	44,167	42,305	-	2,893
2006	45,616	44,939	-	2,700

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State of Tennessee
Schedule of Fees/Charges, Legislative Appropriations and Debt Service (continued)
Component Units
College and University Funds
For the Last Ten Years

(Expressed in Thousands)

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 27,208	$ 38,164	-	$ 1,150
1998	28,831	37,699	-	1,145
1999	31,616	39,259	-	1,075
2000	33,791	38,938	-	844
2001	37,065	43,568	-	639
2002	41,311	40,392	-	415
2003	53,518	45,813	-	897
2004	47,194	40,165	-	1,168
2005	44,801	47,869	-	1,042
2006	48,903	48,503	-	1,277

Dyersburg State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 2,566	$ 4,909	-	-
1998	2,534	5,125	-	-
1999	2,859	5,466	-	-
2000	2,918	5,666	-	-
2001	3,127	5,809	-	-
2002	2,349	5,579	-	-
2003	2,514	6,108	-	-
2004	3,057	6,035	-	-
2005	3,087	6,386	-	-
2006	3,550	6,490	-	$ 117

Chattanooga State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 9,032	$ 18,514	$ 71	-
1998	9,818	18,589	68	-
1999	10,453	19,602	69	-
2000	11,074	20,234	72	-
2001	11,650	20,684	69	$ 34
2002	12,380	21,233	70	73
2003	13,428	21,108	60	73
2004	11,937	20,979	65	73
2005	12,306	21,977	0	69
2006	19,084	22,336	-	280

Jackson State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 3,157	$ 8,609	-	-
1998	3,749	8,343	-	-
1999	3,915	9,028	-	-
2000	4,350	9,417	-	-
2001	2,763	10,210	-	-
2002	5,043	10,477	-	-
2003	4,979	10,768	-	-
2004	5,649	10,610	-	-
2005	5,908	11,282	-	-
2006	6,224	11,480	-	$ 168

Columbia State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 4,966	$ 8,670	-	-
1998	5,753	9,069	-	-
1999	6,615	10,143	-	-
2000	6,836	10,675	-	-
2001	7,294	11,016	-	-
2002	13,136	11,437	-	-
2003	14,921	11,540	-	-
2004	10,799	11,344	-	-
2005	12,133	12,839	-	$ 17
2006	13,027	12,731	-	17

Motlow State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 8,078	$ 7,321	-	-
1998	7,275	7,390	-	-
1999	9,227	7,883	-	-
2000	9,663	8,187	-	-
2001	9,648	8,405	-	-
2002	9,759	8,864	-	-
2003	9,937	9,041	-	-
2004	9,173	8,893	-	-
2005	12,184	9,489	-	-
2006	14,052	9,585	-	$ 171

Nashville State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Debt Service Requirements (Non-Authority)	Requirements (Authority Bonds)
1997	$ 4,777	$ 9,677	-	-
1998	6,260	9,864	-	-
1999	6,816	11,092	-	-
2000	7,474	11,655	-	-
2001	8,322	12,168	-	-
2002	8,254	12,525	-	-
2003	13,519	13,099	-	$ 13
2004	12,202	12,730	-	13
2005	13,955	13,449	-	13
2006	15,615	14,045	-	13

Northeast State Technical Community College

Year	and Charges	Appropriations	Prior and Subordinate (Non-Authority)	Debt Service (Authority Bonds)
1997	$ 3,187	$ 7,767	-	-
1998	3,494	8,166	-	-
1999	3,910	8,713	-	-
2000	4,341	9,026	-	-
2001	4,817	9,595	-	-
2002	4,066	9,864	-	-
2003	4,478	10,669	-	-
2004	5,508	10,514	-	-
2005	5,949	11,084	-	-
2006	6,342	11,275	-	$ 212

Pellissippi State Technical Community College

Year	and Charges	Appropriations	Prior and Subordinate (Non-Authority)	Debt Service (Authority Bonds)
1997	$ 13,721	$ 15,465	$ 128	-
1998	14,403	15,444	121	-
1999	16,162	16,630	114	-
2000	16,623	17,144	131	-
2001	18,779	17,596	-	-
2002	21,648	18,185	-	-
2003	22,727	18,345	-	-
2004	25,818	18,096	-	-
2005	27,694	19,039	-	-
2006	29,979	19,348	-	$ 293

Walters State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1997	$ 7,236	$ 12,658	-	-
1998	8,350	13,132	-	-
1999	8,408	14,265	-	-
2000	9,001	14,767	-	-
2001	10,170	15,173	-	-
2002	17,832	15,595	-	-
2003	20,031	16,045	-	-
2004	20,827	15,821	-	-
2005	21,318	16,780	-	-
2006	28,946	16,999	-	$ 294

Roane State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Debt Service Requirements (Non-Authority)	Requirements (Authority Bonds)
1997	$ 5,878	$ 13,649	-	-
1998	6,268	13,441	-	-
1999	6,940	14,254	-	-
2000	7,565	14,879	$ 33	-
2001	7,697	15,524	33	-
2002	8,589	15,771	-	-
2003	9,532	15,779	-	-
2004	7,473	15,518	-	-
2005	7,890	16,471	-	-
2006	8,858	16,933	-	$ 330

Southwest Tennessee Community College

Year	and Charges	Appropriations	Prior and Subordinate (Non-Authority)	Debt Service (Authority Bonds)
1997	$ 9,712	$ 18,174	-	-
1998	9,837	17,898	-	-
1999	9,991	18,527	-	$ 56
2000	10,838	18,464	-	146
2001	18,325	34,451	-	146
2002	19,022	35,175	-	179
2003	21,839	34,827	-	179
2004	16,472	34,191	-	179
2005	16,749	36,210	-	169
2006	18,166	36,905	-	174

Volunteer State Community College

Year	and Charges	Appropriations	Prior and Subordinate (Non-Authority)	Debt Service (Authority Bonds)
1997	$ 12,855	$ 12,029	-	-
1998	13,046	13,232	-	-
1999	15,088	14,323	-	-
2000	17,843	14,947	-	-
2001	15,567	15,394	-	-
2002	15,060	15,862	-	-
2003	12,941	15,813	-	-
2004	9,395	15,417	-	-
2005	19,115	18,049	-	$ 17
2006	19,245	17,479	-	140

Source: Comptroller of the Treasury,
Division of Bond Finance

State of Tennessee
Student Fees and Charges
For Institutions with Tennessee State School Bond Authority Debt
Component Units
College and University Funds
For the Fiscal Year Ended June 30, 2006

Schedule 16

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 74	$ 5,290	$ 16,360	$ 2,466	$ 2,850
University of Tennessee- Chattanooga	220	4,500	13,526	2,710	3,800
University of Tennessee- Martin	174	4,493	13,547	2,200	2,044
University of Tennessee- Memphis	54	6,522	18,998	-	3,240
Austin Peay State University	274	4,635	13,947	1,900	2,900
East Tennessee State University	180	4,487	13,799	1,998	1,864
University of Memphis	192	5,084	14,898	1,590	2,658
Middle Tennessee State University	166	4,576	13,888	2,070	2,680
Tennessee State University	130	4,384	13,696	1,710	3,880
Tennessee Technological University	58	4,396	13,708	2,720	3,112
Chattanooga State Technical Community College	-	2,413	8,827	-	-
Cleveland State Community College	-	2,395	8,809	-	-
Columbia State Community College	-	2,383	8,797	-	-
Dyersburg State Community College	-	2,393	8,807	-	-
Jackson State Community College	-	2,395	8,809	-	-
Motlow State Community College	-	2,389	8,803	-	-
Nashville State Technical Community College	-	2,367	8,781	-	-
Northeast State Community College	-	2,403	8,817	-	-
Pellissippe State Technical Community College	30	2,413	8,827	-	-
Roane State Community College	-	2,397	8,811	-	-
Southwest Tennessee Community College	-	2,397	8,811	-	-
Volunteer State Community College	-	2,383	8,797	-	-
Walters State Community College	-	2,381	8,795	-	-

Source: Comptroller of the Treasury,
Division of Bond Finance

State of Tennessee
Principal Amount of Debt Outstanding by Institution
Component Units
College and University Funds
June 30, 2006

Schedule 17

Institution	First Program Bonds	Second Program Bonds	Commercial Paper	Non-Authority Debt	Total Debt
University of Tennessee	$ 10,020	$ 239,584	$ 28,598	$ 56	$ 278,258
Austin Peay State University	579	27,730	5,668		33,977
East Tennessee State University	78	32,799	6,459	2,242	41,578
University of Memphis	418	49,201	5,219		54,838
Middle Tennessee State University	179	92,891	15,936		109,006
Tennessee State University	4,439	24,979	4,047		33,465
Tennessee Technological University	47	12,020	4,538		16,605
Chattanooga State Technical Community College		1,278	1,739		3,017
Cleveland State Community College		613			613
Columbia State Community College		119			119
Dyersburg State Community College		422			422
Jackson State Community College		606			606
Motlow State Community College		620			620
Nashville State Technical Community College		64			64
Northeast State Community College		1,067			1,067
Pellissippe State Technical Community College		1,699			1,699
Roane State Community College		2,217			2,217
Southwest Tennessee Community College		1,456			1,456
Volunteer State Community College		559			559
Walters State Community College		1,788			1,788
	$ 15,760	$ 491,712	$ 72,204	$ 2,298	$ 581,974

Source: Comptroller of the Treasury,
Division of Bond Finance

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ACKNOWLEDGMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION
DIVISION OF ACCOUNTS

CHIEF OF ACCOUNTS

JAN SYLVIS, CPA*

PAYROLL

SUSAN WALKER
PAT ALFORD
HARRY BROUGHMAN
SHYAMALI GHOSH
SUZANNE GRADY
MELISSA HACKER
TERRI KING
REGGIE MARABLE
CARL MOSLEY
LARRY VOYTA

CASH MANAGEMENT

ANNETTE WHITE
LYNN CUMMINGS, CPA
TERRI RACARD

POLICY DEVELOPMENT

JACK HILL
TAMMY WORLEY

REVENUE MAXIMIZATION

DOTTIE HAGOOD
CHRISTA MARTIN

STATE-WIDE ACCOUNTING

ADMINISTRATION

MIKE CORRICELLI, CPA*
ELLEN FELLMAN, CPA*
RHONDA HICKS, CPA
TERRY MASON
JUANITA MCCRARY*
DA NORM*
DON SHELTON, CPA

REPORTING

NANCY CHECK
GEORGE CROSSWHITE
VIVIAN KAAIHUE*
DONNA NICELY
MARGARET WAYNICK
WANDA WILSON
SHERITA WOODS*

FINANCIAL OVERSIGHT

DIANNE MCKAY, CPA*
IKE BOONE*
ANN COLLETT, CPA*
KRISTI COUCH, CPA*
MICHELLE EARHART, CPA*
MICHELLE ELLIOTT, CPA*
TAMMY MILLER, CPA
RANDY ROSS*
ELAINE WERNER, CPA

FINANCIAL CONTROL

RICHARD NICKS, CPA
TERESA DYCE
TARA LEWIS
JAN OSBORNE*
FRANCINE VAUGHN
LISA WELLS
DEBORAH WOODALL

STARS DEVELOPMENT

DAVID DEALY
CINDY RITTENBERRY
KEN WINTER, CPA, Inactive

PRE-AUDIT

LARRY PERRY, CPA
TOM CAREY
JACOB CARRIGAN
BECKY CARTER
DORINDA COLEMAN
STEPHANIE FRENCH
CLARISA GOMEZ
KURT HERRON
NAJAT KANAKRIEH
CAROLYN NIFONG
LAURA POOLE
RICHARD REESE

GENERAL LEDGER

TRACY BROWN*
CORA LEE DAUGHERTY
WANDA DRIGGERS
SUZE GRIMES
CHRISTIE HEDGES*
LINDA MILLER
SHAWANNA NORMAN
JENNIFER PEARSON, CPA,* Inactive
HELEN THOMAS
GLENDA TIDWELL

***PREPARER OF COMPREHENSIVE ANNUAL FINANCIAL REPORT**